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ABSTRACT

This three-part curriculum for entrepreneurship education is primarily for postsecondary level, including four-year colleges and adult education, but it can be adapted for special groups or vocational teacher education. The emphasis of the seven instructional units in Part II is establishing a business. Unit D focuses on business regulations at the local, state, and federal levels affecting the operation of small businesses. It covers basic vocabulary and concepts concerning government rules and regulations and discusses government agencies, legislation, licensing regulations, and tax laws. The "Annotated List of Rules and Regulations" at the end of the unit provides an overview of and reference for government regulations. Material is organized into three levels of learning which progress from simple to complex concepts: Exposure, Exploration, and Preparation/Adaptation. Each level contains preassessment; teaching/learning objectives; substantive information (questions in margins guide the students' reading); activities, including a postassessment; and a self-evaluation. Definitions of important terms are found at the beginning of the unit; a bibliography and listing of sources for further information are appended. The four-page instructor's guide contains the teaching/learning objectives, teaching/learning delivery suggestions, and pre/postassessment suggested responses. (YLB)

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Research and Development Series No. 194 B-4

PACE

A PROGRAM FOR ACQUIRING COMPETENCE IN ENTREPRENEURSHIP

PART II: Becoming an Entrepreneur
UNIT D: Government Regulations and Small Business

The National Center for Research in Vocational Education
The Ohio State University
Columbus, Ohio 43210

1980

CE 028 157

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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PART II: BECOMING AN ENTREPRENEUR

UNIT D: GOVERNMENT REGULATIONS AND SMALL BUSINESS

TABLE OF CONTENTS

	Page
FOREWORD	v
HOW TO USE PACE	vii
OVERVIEW OF THE UNIT	ix
DEFINITIONS TO KNOW BEFORE YOU BEGIN	xi
PACE PATH OF STUDY	xiii
LEVEL I: EXPOSURE	
PREASSESSMENT	1
TEACHING/LEARNING OBJECTIVES	2
SUBSTANTIVE INFORMATION	3
Government Regulations	3
Federal Regulations Classified	6
Tax Legislation	17
Obtaining Legal Assistance	19
ACTIVITIES	22
Assessment One	22
Postassessment	23
SELF-EVALUATION	23
LEVEL II: EXPLORATION	
PREASSESSMENT	25
TEACHING/LEARNING OBJECTIVES	26

Page

SUBSTANTIVE INFORMATION 27

Importance of Understanding Rules and Regulations 27
Classification of Rules and Regulations 29
Tax Laws 42

ACTIVITIES 51

Assessment One 51
Postassessment 53

SELF-EVALUATION 54

LEVEL III: PREPARATION/ADAPTATION

PREASSESSMENT 55

TEACHING/LEARNING OBJECTIVES 56

SUBSTANTIVE INFORMATION 57

Importance of Rules and Regulations 57
Licensing 60
Antitrust Laws 62
Consumer Protection Regulations 67
Human Resource Considerations 73
Taxes 80
Getting Legal Advice 85

ACTIVITIES 87

Assessment One 87
Postassessment 90

SELF-EVALUATION 90

ANNOTATED LIST OF RULES AND REGULATIONS 91

BIBLIOGRAPHY 101

SOURCES TO CONSULT FOR FURTHER INFORMATION 103

FOREWORD

Traditionally vocational education has been geared primarily to preparing students for employment--to preparing employees. Yet there is another career path available; students can learn how to set up and manage their own businesses. They can become entrepreneurs.

Vocational education, by its very nature, is well suited to developing entrepreneurs. It is important that entrepreneurship education be developed and incorporated as a distinct but integral part of all vocational education program areas. A Program for Acquiring Competence in Entrepreneurship (PACE) represents a way to initiate further action in this direction.

The strength behind these instructional units is the interest and involvement of vocational educators and successful entrepreneurs in the state of Ohio and across the nation. Special recognition is extended to the project staff: Lorraine T. Furtado, Project Director and Lee Kopp, Program Associate. Appreciation is also expressed to the many who reviewed and revised the drafts of the units: Ferman Moody, Hannah Eisner, and Sandra Gurvis. We owe a special thanks to those consultants who contributed to the content of this publication: Carol Lee Bodeen, Louis G. Gross, Douglass Guikema, Peter G. Haines, Philip S. Manthey, Charles S. McDowell, Mary E. McKnight, Steven R. Miller, Barbara S. Riley, Barbara A. Rupp, Ruth Ann Snyder, Robert L. Suttle, Florence M. Wellman and Roy H. Young.

Robert E. Taylor
Executive Director
The National Center for
Research in Vocational Education

HOW TO USE PACE

A Program for Acquiring Competence in Entrepreneurship (PACE) is a curriculum responsive to the need for instruction in entrepreneurship. It is primarily for postsecondary level, including four year colleges and adult education, but it can also be adapted for special groups. PACE is divided into three parts (1) Getting Ready to Become an Entrepreneur, (2) Becoming an Entrepreneur (establishing a business), and (3) Being an Entrepreneur (operating a business).

Each of the three parts has a set of instructional units which relate to that topic. Within these units, the material is organized into three levels of learning: Exposure, Exploration, and Preparation/Adaptation. These levels of learning progress from simple to complex concepts.

The levels of learning will enable you to use the PACE materials to suit your individual needs. You may find it best to work with the exposure level of one unit and the exploration level of another. Or, you may choose to pursue one level throughout the entire series. You might also want to work through two or more levels in one unit before going on to the next unit.

Before beginning a unit, discuss with your instructor what level or levels of learning in that unit are most appropriate to your goals and abilities. Read the unit overview and look through the pre/post-assessments for the three levels to help you in your choice. Also check the list of definitions you might need to look up or research for that level.

When you are ready to start, turn to the level you have chosen, take the preassessment and identify those items which you feel need special attention in the unit. Also look at the learning objectives; they will tell you what you should be able to do by the time you finish that level of learning.

As you read, you will notice questions in the margins alongside the substantive content portion of each level. Use these questions to guide your reading.

At the end of each level of learning are activities which help you become involved with the content presented in the unit. You and your instructor can decide on how many activities you should do; you may want to do several or you many need to do all.

Then, evaluate yourself. Is there any material that you need to review before you take the postassessment? The difference in your answers on the pre/postassessments should show you how much you have grown in your knowledge of entrepreneurship.

When you and your instructor feel that you have successfully completed that level, you are ready to begin another level of learning, either in the same unit or in another.

OVERVIEW OF THE UNIT

Numerous government regulations affect the operations of small businesses. These government regulations may require the owner to obtain a certain type of business license, install special equipment to control air pollution, disclose the "true rate of interest" to credit customers, or pay social security tax.

Government regulations exist at the local, state, and federal levels. The number of rules and regulations affecting small businesses seems to constantly be increasing and becoming more complex. The entrepreneur who seeks assistance from an attorney and an accountant in understanding and interpreting the various laws is wise.

To help you in making decisions about these legal areas, this PACE unit acquaints you with the basic vocabulary and concepts concerning government rules and regulations. The unit discusses government agencies, legislation, licensing regulations, and tax laws. The "Annotated List of Rules and Regulations" at the end of the unit also provides an overview of and reference for government regulations. The unit will help you to understand what your obligations are, how to comply, and where to seek help when problems arise.

DEFINITIONS TO KNOW BEFORE YOU BEGIN

As you read through a level, you might find some unfamiliar words. Listed below are several business terms used in each level. Knowing these before you begin might help you to better understand that level.

EXPOSURE

license

monopolies

antitrust

trademark

retainer fee

EXPLORATION

license

fair trade laws

exclusive agreements

depreciation

warranty

exclusive agreements

exemption

excise tax

withholding

antitrust

remit

price discrimination

The following legal responsibilities are listed in the Exploration level. You might want to look up some of these terms, should they refer to one or more anticipated responsibilities.

Acquisitions
Advertising - copy packaging
Agents and brokers
Antitrust matters
Arbitration - role in disputes
Bankruptcy
Board of Directors
Brand names
Buying and selling - terms and conditions
Checks - forgeries, frauds
Contracts and agreements
Competitors stealing employees
Corporate form
Employer and employee responsibilities
Employment agreements
Franchises
Government - federal, state, and local
Insurance contracts
Interstate transportation
Inventions
Labeling
Licenses
Mergers
Misrepresentation
Multiple corporations
Negligence
Negotiable instruments
Order acknowledgment and confirmation
Patents
Permits
Price discrimination
Product liability
Profit sharing
Records, legal
Retirement pensions
Slander and libel
Stock options
Stock voting rights
Stockholders
Taxes
Tie-in sales
Trade secrets
Trademarks
Unfair competition
Verbal agreements
Wills
Worker's compensation
Zoning

(SBA, 1968, Managing for Profit)

PREPARATION/ADAPTATION

monopoly

securities

merger

audit

affirmative action

excise tax

intrastate

interstate

remit

PACE

PATH OF STUDY

PART I -- GETTING READY TO BECOME AN ENTREPRENEUR

Unit I A

Unit I B

Unit I C

PART II -- BECOMING AN ENTREPRENEUR

Unit II A

Unit II B

Unit II C

Unit II D-- Government Regulations and Small Business

Unit II E

Unit II F

Unit II G

PART III -- BEING AN ENTREPRENEUR

Unit III A

Unit III B

Unit III C

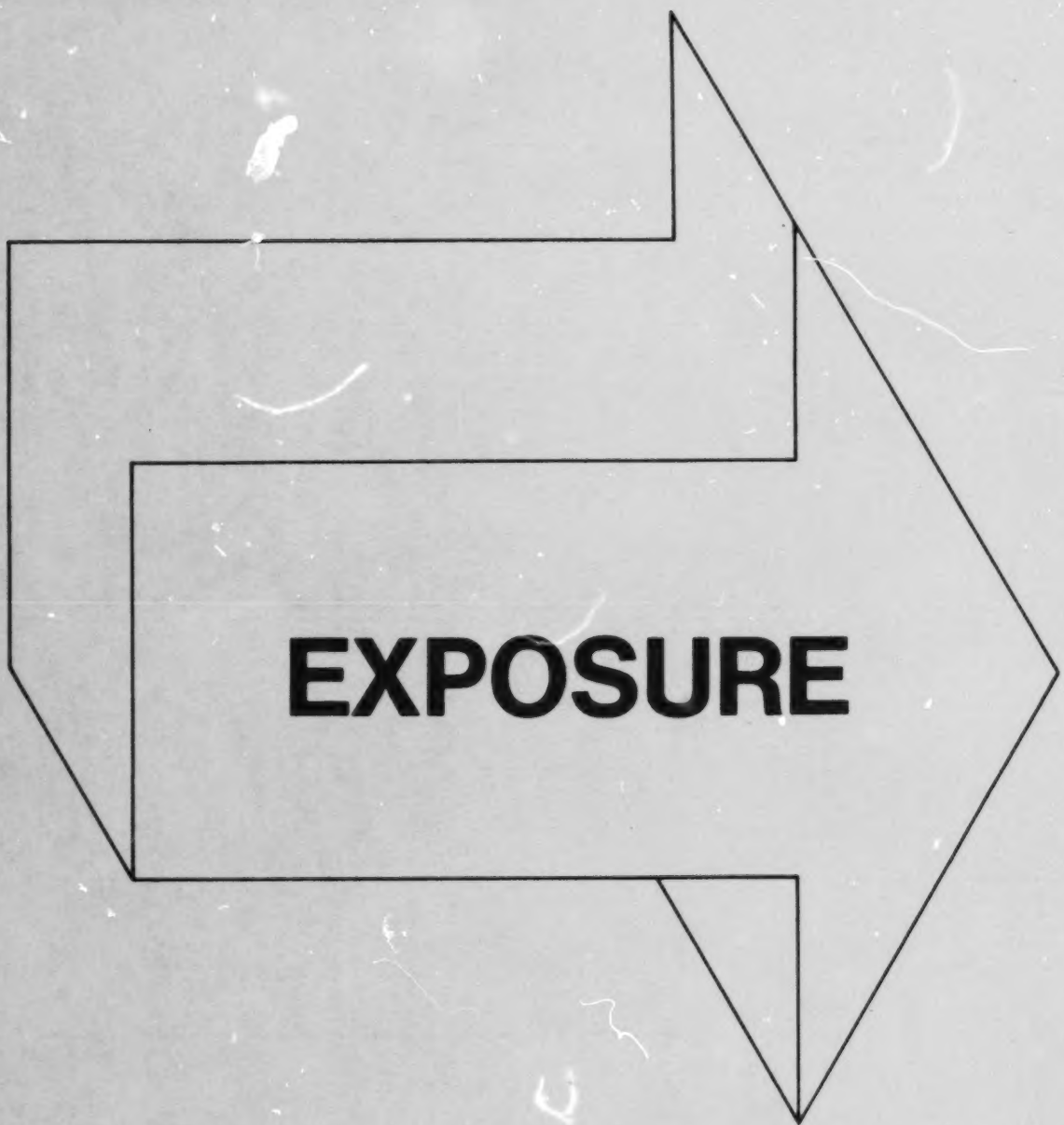
Unit III D

Unit III E

Unit III F

Unit III G

Unit III H


EXPOSURE

EXPOSURE

PART II, UNIT D
GOVERNMENT REGULATIONS
AND SMALL BUSINESS

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exposure Activities" section and measure what you've learned.

1. It has often been said that small business owners feel that federal regulations are more of a burden than an aid to their firm's operations. Do you agree or disagree? Why?
2. What are licenses and permits?
3. What are the federal laws aimed at protecting each of the following groups: employees, competition, and consumers.
4. What federal taxes are entrepreneurs required to pay?
5. What state taxes are small businesses likely to pay?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction, you should be able to:

1. Discuss the importance of government rules and regulations to small business.
2. Define licenses and permits.
3. Classify legislation according to whom it is designed to protect, and
4. Discuss at least three types of state and local taxes.

SUBSTANTIVE INFORMATION

GOVERNMENT REGULATIONS

You will not be ready to start your business until you have considered the rules and regulations your business will have to follow. For instance, you must become generally familiar with the kinds of taxes, employee and consumer protection regulations, and measures to guarantee fair competition among business operations. What laws and regulations will affect your firm? To what taxes will your business be subject? Are there other special requirements which pertain to your particular line of business?

Impact on Small Business

WHAT IMPACT DO GOVERNMENT RULES AND REGULATIONS HAVE ON SMALL BUSINESS?

A recent article by Harlow Unger in The Enquirer Magazine spoke of the burden government regulations have on small and large firms.

After nearly 25 years, Sam Ratoff has decided to call it quits. He's shutting his New York City butcher shop. No, he's not running from the burglers who twice robbed him at gunpoint last year--or the shoplifters who sometimes walk off with five or ten dollars' worth of canned goods in a single day. "It ain't the hoods," he explained. "It's the government. I spend so much time filling out forms and showing inspectors around the shop that I don't have no time to run my business. I spent two weeks filling out tax forms this year. I can't afford a thousand dollars for a CPA."

Unfortunately for Sam, he lives in New Jersey. And that only increased the number of tax forms he had to fill out this year. New Jersey residents paid two state income taxes from 1976--an unearned income tax for the first six months and a gross income tax for the second half.

In addition, Sam had to pay--and fill out forms for--the New York State non-resident income tax, New York City non-resident income tax, federal income tax (including Schedule C for sole proprietorships), W-2 forms for New York City, New York State and federal government taxes withheld from his assistant's salary, federal unemployment insurance, Employee Pension Benefit Plan, declaration of estimated federal income tax for 1977 and declaration of estimated New Jersey gross income tax for 1977.

And those were just the annual taxes and forms he had to deal with. Each quarter--four times a year--Sam has to fill out forms for--and pay--New York City and New York State sales taxes, New York City withholding taxes, New York State withholding taxes, federal withholding taxes, Social Security taxes, New York City commercial rent and occupancy tax,

New York State unemployment insurance and federal disability benefits insurance.

(The Cincinnati Enquirer, November 20, 1977, p. 55).

Federal and state laws prohibit and restrict certain business practices. Whatever your business, you should check with local, state and, if you expect to engage in interstate activities, with federal authorities regarding laws covering your operations.

Purpose of Legislation

WHY HAVE LEGISLATION?

Even though government laws may be burdensome to the entrepreneur, they exist to protect everyone involved in business transactions. You may often think that the time you spend filling out forms and keeping abreast of legislation concerning your firm could be better used in developing your business. However, every business depends on a healthy society for its success, and attempts by the government to protect the interests of all citizens ultimately work to your advantage. In addition to protecting the interest of consumers, legislation also protects the entrepreneurs against such pitfalls as unfair competition.

Source of Regulations

WHO MAKES THE REGULATIONS?

Regulations concerning the operation of small businesses are made on the federal, state, county, and municipal levels. Federal regulations apply to businesses throughout the country in a uniform way. State and local rulings vary from state to state and from one city to the next.

FEDERAL REGULATIONS CLASSIFIED

HOW CAN FEDERAL REGULATIONS BE CLASSIFIED?

Federal regulations can be classified according to whomever they are designed to protect. Federal regulations intend to protect employees, the environment, and consumers. They also attempt to maintain fair competition among enterprises and control licensing and permits. For example, a separate regulatory agency, the Environmental Protection Agency, regulates those business operations that have an impact on the nation's air, water and other natural resources.

Many of these regulations are not universal; that is, many of them apply to some, but not all, entrepreneurs. For example, some businesses (but not all) are regulated by the federal Food and Drug Administration while others must comply with laws regulating the sale of goods or services over state boundaries.

Employee Protection Legislation

WHAT LEGISLATION PROTECTS WORKERS?

Many state and local governments have added their own provisions to employee protection laws. This legislation includes:

- Occupational Safety and Health Act of 1970 (OSHA)
- Fair Labor Standards Act of 1938
- Equal Employment Opportunity Act of 1972
- Federal Social Security Act of 1935
- Federal Civil Rights Act of 1964
- National Labor Relations Act of 1935
- The Taft-Hartley Act of 1947
- The Labor Management Reporting and Disclosure Act (1959)
- Unemployment Compensation Act of 1961.

Personal Protection

WHAT LAWS PROVIDE PERSONAL PROTECTION?

The Occupational Safety and Health Act of 1970 (OSHA) is one of the most meaningful pieces of legislation protecting employees. This act was written to make all employers responsible for providing a safe and healthful work place. One out of every eight workers has a work-related illness or accident each year. OSHA was passed with the intent of minimizing such problems.

Many states have adapted the provisions of OSHA and have even developed legislation of their own to protect employees. Practically every worker other than domestic and household workers and miners are covered under this law. Domestic and household workers are protected under other legislation.

The Fair Labor Standards Act of 1938 is also intended to protect workers. This act provides for minimum wages, maximum hours, overtime pay, equal pay, record-keeping, and child labor limitations. The act requires equal pay for equal work for all employees covered by minimum wage laws. The law does not prohibit paying different wages if the wage difference is based on seniority, quantity of work, or quality of work. However, if the job requires the same skills, efforts and responsibilities, then an employer cannot pay one employee different wages than another.

In addition to the Fair Labor Standards Act, the Walsh-Healy Act of 1936, the Davis-Bacon Act of 1931, and other related acts establish wages, hours, and working conditions which are applicable to government contractors.

The above acts may or may not cover your employees depending on your situation. Specific information can be obtained from your nearest office of the Wage and Hour and Public Contracts Division, U. S. Department of Labor.

Protection Against Discrimination

WHAT LAWS PROTECT EMPLOYEES AGAINST DISCRIMINATION?

The Equal Employment Opportunity Act of 1972 requires all businesses who have federal contracts to take affirmative action to ensure that employees and applicants for employment are treated without regard to sex, race, creed, color, or national origin.

Fair employment practices are established by the Federal Civil Rights Act of 1964 which makes it unlawful, as a condition of employment, to discriminate on the basis of race, religion, age, or sex. Also, many states have enacted fair employment practice laws. In soliciting and selecting employees, you, as a small business owner, will be concerned with maintaining the standards established by such laws.

The National Labor Relations Act of 1935, the Taft-Hartley Act of 1947, and the Labor Management Reporting and Disclosure Act of 1959 are three major federal laws dealing with settlement of labor disputes. This legislation guarantees the right of employees engaged in interstate commerce to organize and bargain collectively with their employers or to refrain from such activities. States also have enacted laws designed to uphold collective bargaining and to define unfair labor practices.

Economic Protection

WHAT LAWS COVER EMPLOYEE ECONOMIC SECURITY?

The Social Security Administration (SSA) in the Department of Health, Education, and Welfare (HEW) administers the Federal Social Security Act of 1935. The SSA provides monthly benefits to insured persons and their dependents in the event of retirement, disability, or death and provides health insurance (Medicare) to persons sixty-five and over, and to some disabled persons under sixty-five. There are

thirteen hundred Social Security offices in the United States. If there is no office in your community, consult your local post office for the visit schedule of social security representatives.

In addition to the Federal Social Security Act, there are other regulations dealing with economic security for employees. Legislation for economic security is designed 1) to minimize losses an employee might sustain from industrial accidents, occupational diseases, and involuntary unemployment; 2) to provide hospital and medical care for the employee; and 3) to furnish some income to the employee after retirement.

The Federal Social Security Act encourages all states to enact economic security laws and all states have done so. Protection from income loss from industrial accidents and occupational diseases comes through worker's compensation laws. Provisions of these laws vary from state to state so you should consult local sources for information about them. Involuntary unemployment benefits are also required by both state and federal legislation.

Legislation Regulating Fair Competition

WHAT LEGISLATION REGULATES FAIR COMPETITION?

The federal regulations intended to maintain fair competition among enterprises include such laws as:

- The Sherman Antitrust Act of 1890
- The Clayton Act of 1914
- The Robinson-Patman Act of 1936
- The Lanham Trademark Act of 1946

These laws were established to encourage competition by governing sales and services between state boundaries. States have similar legislation to regulate goods and services sold within state lines.

The most significant federal laws prohibiting the development of monopolies are the Sherman Antitrust Act of 1890 and the Clayton Act of 1914. These antitrust Acts were intended to encourage competition by restricting the growth of monopolies.

The Sherman Antitrust Act notes, "every contract, combination...or conspiracy in restraint of trade or commerce among the several states...is hereby declared to be illegal."

The Clayton Act was particularly concerned with price fixing as a means of reducing competition. Similar to the Sherman Antitrust Act, this Act made it illegal for persons or firms to discriminate on prices between buyers if the result would decrease competition. The Clayton Act also prohibits exclusive dealings.

The Robinson-Patman Act of 1936 was passed to amend and strengthen the Clayton Act. The purpose of this Act is to

strengthen fair competition. It provides that like business purchasers of like goods from the same supplier should pay the same price. This includes quantity or trade discounts. The Act requires sellers to establish one base price for all buyers and to give the same amount of quantity and trade discounts to all buyers.

The Lanham Trademark Act of 1946 provides for registration and protection of trademarks used in commerce and implements the provisions of certain international conventions.

Consumer Protection Legislation

WHAT LEGISLATION IS DESIGNED TO PROTECT CONSUMERS?

There are federal laws that are aimed at protecting consumers. These include:

- The Federal Equal Credit Opportunity Act of 1974
- The Fair Credit Billing Act of 1975
- The Fair Credit Reporting Act of 1970
- The Consumer Credit Protection Act of 1969
- Federal Food and Drug and Cosmetic Act of 1938
- Fair Packaging and Labeling Act of 1966
- Textile Fiber Products Identification Act of 1958

Credit Protection Legislation

WHAT ARE THE CREDIT PROTECTION LAWS?

Recent legislation has provided additional credit protection to customers. The Consumer Credit Protection Act of 1969 is commonly called the "Truth-in-Lending Act." If you extend credit to your customers, you will be affected

by this law. This law is intended to assure a meaningful disclosure of credit terms. It requires that lenders provide debtors with meaningful disclosures of credit terms so that the consumer will know exactly what credit will cost, thus enabling the consumer to readily compare various credit terms available. The law also provides that lenders tell the truth when loaning money or extending credit, and disclose their credit terms and interest costs in prescribed standard terminology.

An amendment to the Act limits the liability the consumer (buyer) has for unauthorized credit card use to fifty dollars on cards issued on or before January 25, 1971. No liability on cards is issued after that time unless the credit card issuer takes several steps such as: notifying the card holder of limited liability; providing a postage-free means of notification of loss; and providing a means of identification such as signature, thumb print, or photograph of the consumer.

The Equal Credit Opportunity Act of 1975 is designed to ensure that consumers are not denied credit for reasons of sex, marital status, age, race, religion, or national origin.

The Fair Credit Billing Act of 1975 was passed to provide consumers with an opportunity to dispute errors in billing statements and to require creditors to make an effort to correct such errors.

The Fair Credit Reporting Act (October 26, 1970) is designed to ensure that a consumer's credit report will contain only accurate, relevant, and recent information and will be confidential unless requested for an appropriate reason by the proper party.

Laws Concerning Products

WHAT LAWS PROTECT CONSUMERS FROM HAZARDOUS PRODUCTS?

The Food and Drug Administration (FDA) is a federal government unit within the Department of Health, Education, and Welfare (HEW) which protects consumers by enforcing laws and regulations to prevent distribution of adulterated or misbranded foods, drugs, medical devices, cosmetics, and veterinary products.

The Pure Food and Drug Act of 1906 forbids "adulteration and misbranding" of foods and drugs sold in interstate commerce. The Federal Food, Drug, and Cosmetic Act of 1938 added cosmetic and therapeutic devices to the FDA's jurisdiction. The legislation also revised the definition of misbranded foods. The definition of improper labeling material was broadened to include any "false and misleading" label.

Additional Consumer Protection Legislation

ARE THERE OTHER LAWS DESIGNED TO PROTECT THE CONSUMER?

The Fair Packaging and Labelization Act of 1966 intends to prevent unfair or deceptive packaging or labeling of certain consumer goods.

"Truth-in-fabrics" legislation has also been enacted for consumer protection. The Textile Fiber Products Identification Act of 1958 requires informative labeling and advertising of textile fiber products. Retailers or wholesalers who sell or advertise textile products share with the manufacturer the responsibility for seeing that the fiber content of goods is properly labeled and advertised. For example, this federal legislation applies to persons advertising clothing or household fabric products in newspapers having interstate commerce, regardless of whether or not goods are actually marketed across state lines. Therefore, the vast majority of retailers handling textiles have definite responsibilities under this labeling law.

Laws Protecting the Environment

WHAT LEGISLATION PROTECTS THE ENVIRONMENT?

In recent years, concern about protecting the environment has increased. Ways and means are sought to decrease pollution of air, water, and other parts of the environment. Various branches of government--local, state, and federal--have passed regulations designed to help protect the environment. On the national level, the Environmental Protection Agency (EPA) has been established. You should determine which pollution laws and regulations, if any, apply to the type of business you plan to open. Good starting points for gathering this information are the trade associations for your line of business and the offices of the various branches

of government, including the EPA.

Licenses and Permits

WHAT ARE LICENSES AND PERMITS?

A business license or permit is an authorization, or formal permission, to operate a business. Certain types of businesses are commonly "licensed." Business owners must meet certain requirements before a license or permit is issued. Payment of an annual fee is usually required to obtain a license. You also may be asked to complete a written application.

The federal government licenses certain industries. Federal licenses are required for television and radio stations, air transporters and other specific businesses.

In general, state, county and municipal governments issue licenses and permits to most business operations. Businesses which are usually required to obtain a state or local license are pharmacies, real estate brokerages, beauty salons, barbers, building contractors and CPA (Certified Public Accountant) accounting firms. This list is not complete. In some states, many other types of businesses are required to have licenses.

Do you know what licenses and permits are required for the business you are considering opening? Check federal legislation, if applicable. Since license and permit requirements vary from state to state and from one city to the next, you will need to check your county or municipal courthouse to determine what is required by law.

TAX LEGISLATION

WHO MUST PAY TAXES?

Without exception, all businesses must comply with tax laws. Your business, regardless of the type of product or service you sell or when and how you sell it, will be subject to federal, state, and local taxes.

WHAT TYPES OF BUSINESS TAXES ARE THERE?

Almost every phase of a business is affected by taxes. Taxes must be paid on employees, inventory, capital gains, and gross sales. There are many different types of business taxes and keeping good records is the key to effective tax management. In Managing for Profits, an SBA publication, Harvey Krentzman lists these kinds of business taxes:

TYPES OF BUSINESS TAXES

Federal	*Individual income taxes* *Corporate income taxes* *Excise taxes--manufacturers, retailers* *Employment taxes* *Social security taxes* *Death taxes* *Stamp taxes* *Occupational taxes* *Customs*
State (specific taxes vary in each state)	*Individual income taxes* *Corporate income taxes* *Gross receipts and sales taxes* *Business real and personal property taxes* *Capital stock taxes* *Business automobile and truck licenses, inspection taxes* *Death taxes* *Foreign-state business taxes* *Worker's compensation insurance premiums* *Incorporation fees* *Employment taxes*

Local

Individual income taxes
Sales taxes
City, school district, and county real and personal property taxes
Business licenses
Business real and personal property taxes

Federal Taxes

WHAT ABOUT FEDERAL TAXES?

Among the federal taxes for which you may be liable are social security taxes, individual income, and, if your business is incorporated, the corporate income tax. Social security taxes are shared by you, as employer, and your employees. From your employees' wages, you must deduct their share of the old-age, survivor's, hospital, and medicare insurance taxes. You must also withhold an amount from their wages for payment of their individual federal income tax, and, where required, state and local income taxes. The law requires that every entrepreneur with one or more employees withhold federal income taxes from the salaries paid the employees. Payment of these withholdings to the taxing agency involved must be made by certain deadlines or the entrepreneur is subject to a penalty.

If you are an employee of your own corporation, the withholding provisions of the social security and individual income taxes apply to you, too. As an employer, you must pay your own income tax in addition to being liable for withholding taxes from each employee's salary. Under the

Self-Employed Individual Tax Retirement Act, you are also allowed an income tax deduction if you set up retirement plans for yourself and employees.

If you are a sole proprietor or partner, your personal income tax payments must be prepared and kept current on a quarterly basis. You should contact your local Internal Revenue Service (IRS) office for other information about your federal tax obligations. One good booklet to have on this subject is the Tax Guide for Small Business, prepared by the IRS.

State and Local Taxes

WHAT ABOUT STATE AND LOCAL TAXES?

You may have other state and local tax responsibilities. The more common types of state taxes are income, property, sales, and unemployment compensation taxes and occupational or business licenses. Information concerning state and local taxes and fees which apply to your particular business can be obtained from state and municipal government offices.

Use the checklist on the following page to obtain information on the various kinds of taxes for which you will be responsible.

OBTAINING LEGAL ASSISTANCE

WHAT ASSISTANCE IS AVAILABLE TO HELP SMALL BUSINESSES COMPLY WITH VARIOUS LAWS?

As you can see, there are many laws with which entrepreneurs must comply. Government regulations, intended to combat social and economic problems in our society, often become burdensome for the small business. The increasing

WORKSHEET FOR MEETING TAX OBLIGATIONS

This worksheet is designed to help you manage your firm's tax obligations. You may want your accountant or bookkeeper to prepare the worksheet so you can use it as a reminder in preparing for and paying the various taxes. Check with your local government's tax office to determine which taxes your firm is obligated to pay.

Kind of Tax				*Date For Writing The Check*
FEDERAL TAXES	*Due Date*	*Amount Due*	*Pay To*	
Employee Income Tax and Social Security Tax				
Excise Tax				
Owner-Manager's and/or corporation's income tax				
Unemployment Tax				
STATE TAXES				
Unemployment Taxes				
Income Taxes				
Sales Taxes				
Franchise Tax				
Other				
LOCAL TAXES				
Sales Tax				
Real Estate Tax				
Personal Property Tax				
Licenses (retail vending machine, etc.)				
Other				

(Steps in Meeting Your Tax Obligation, Small Marketers Aid No. 142, Small Business Administration.)

number of laws and regulations directly affecting businesses and the various interpretations being made by the courts complicate the entire topic of business law, especially for the small entrepreneur.

Since, in most instances, these laws are highly complex, obtaining legal counsel is wise. You can locate a competent lawyer through your bank, accountant, other entrepreneurs, and the state or county Bar Association, which often operates lawyer referral services.

Many small businesses find it advantageous to hire an attorney on a retainer basis. If you operate the type of business in which legal questions arise rather frequently, this may be the most economical means of obtaining legal assistance. Hiring the lawyer as a retainer enables the attorney to become more familiar with your business and therefore better able to understand your company's legal problems.

EXPOSURE ACTIVITIES

As you have read, becoming familiar with government regulations is a very important responsibility of every entrepreneur. Now that you have learned some basic facts regarding government regulations, try these activities. They will help you become more knowledgeable concerning government regulations.

ASSESSMENT ONE

1. Ask a local business owner to meet with your group to discuss how federal, state, and local rules and regulations affect the firm's operations.
2. Check with local government offices that handle business permits and licenses. Find out which types of businesses are required to have licenses and permits. In addition, find out if there are any circumstances that require licensing of the business owner.
3. Government rules and regulations can be classified according to whom they are intended to protect. If this classification system is used, who are the major groups being protected? Discuss each group.
4. Do you believe you will need legal assistance to comply with the rules and regulations that apply to the type of business you want to operate? Why? Explain in detail.

POSTASSESSMENT

1. "Many small business owners believe that federal regulations are more of a burden to their firms' operations than a help for their firms." Respond to this statement. Do you believe this? Why? Why not?
2. Define licenses and permits and provide examples.
3. Describe two federal laws aimed at protecting each of the following groups: employees, competitors, and consumers.
4. Describe two federal taxes that most entrepreneurs are required to pay.
5. Identify and describe three state and local taxes your business would probably be required to pay.

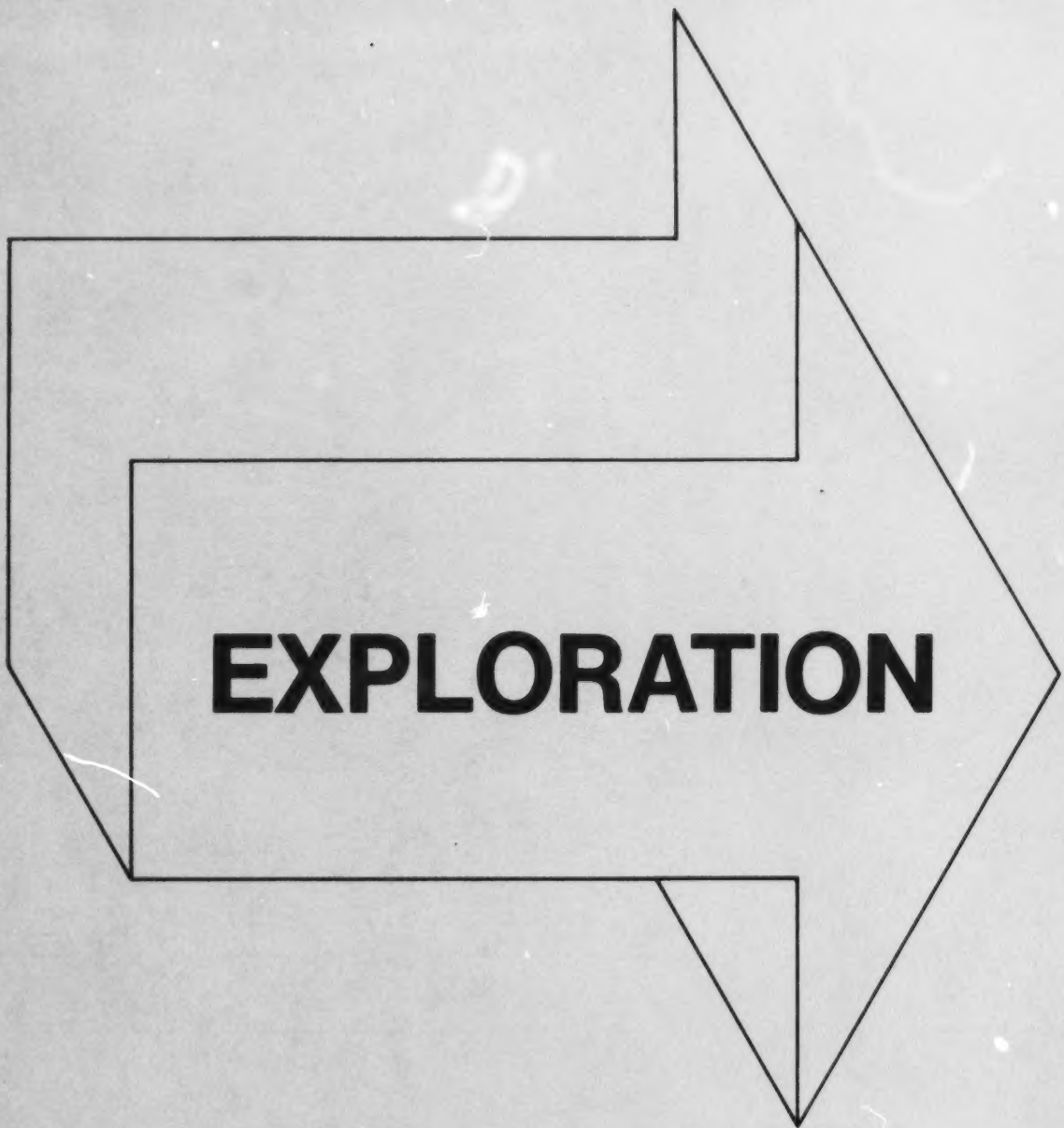
Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well
( ) Fairly well
( ) A little.

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.


EXPLORATION

EXPLORATION

PART II, UNIT D
GOVERNMENT REGULATIONS
AND SMALL BUSINESS

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exploration Activities" section and measure what you've learned.

1. In what areas do you have legal obligations?
2. What federal agencies issue licenses? What businesses do they license?
3. What major federal laws protect competition among businesses?
4. Discuss the Magnusen-Moss Warranty Act.
5. How can a business owner manage federal, state, and local taxes?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction, you should be able to:

1. Identify and describe at least five potential areas in which legal problems may arise for small business owners.
2. Identify two federal agencies which license businesses.
3. Identify and discuss in detail at least three federal rules and regulations that protect fair competition in our economy.
4. Define and discuss in detail each of these laws:
   a. Magnusen-Moss Warranty Act of 1975
   b. Occupational Safety and Health Act of 1970
   c. Equal Employment Opportunity of 1972
   d. Equal Pay Act of 1963.
5. Explain the dual roles a business owner assumes in managing taxes at the federal, state and local levels.

SUBSTANTIVE INFORMATION

IMPORTANCE OF UNDERSTANDING RULES AND REGULATIONS

WHAT IMPACT DO RULES AND REGULATIONS HAVE ON BUSINESS?

Most business restrictions were originally designed as protective devices for our economic system and its people. As the business world grew, so did the laws. In our society today, rules and regulations are undergoing continuous revision; economic growth and complexity has also necessitated the establishment of new laws. These laws function to ensure a healthy society and hence a healthy business atmosphere.

Today's entrepreneur often feels overwhelmed by these protective laws. However, some basic understanding of their purposes is important. Your enterprise will be in a better position to comply with appropriate laws if you include plans to learn about applicable rules, regulations and records in your overall business plans. Awareness of the regulations with which your business must comply will enable you to establish how you can better assume your individual responsibility as an entrepreneur. As you learn more about government rules and regulations, you may discover that certain types of records will be very important for your firm. It will be your responsibility to be sure your firm does in fact comply with the appropriate federal, state, and local regulations.

Potential Legal Responsibilities

IN WHAT AREAS DO LEGAL DUTIES EXIST?

Every business has legal obligations. These duties range from paying taxes to obtaining patents for a product. It is

not possible, nor is it probably wise, for a business owner to handle all legal matters without some professional assistance. As an entrepreneur, you should probably be in touch with an attorney to identify the areas that may affect your type of business. However, being at least familiar with potential legal responsibilities is helpful. Below is a list of legal responsibilities and obligations.

Acquisitions
Advertising - copy packaging
Agents and brokers
Antitrust matters
Arbitration - role in disputes
Bankruptcy
Board of directors
Brand names
Buying and selling - terms and conditions
Checks - forgeries, frauds
Contracts and agreements
Competitors stealing employees
Corporate form
Employer and employee responsibilities
Employment agreements
Franchises
Government - federal, state, and local
Insurance contracts
Interstate transportation
Inventions
Labeling
Licenses
Mergers
Misrepresentation
Multiple corporations
Negligence
Negotiable instruments
Order acknowledgment and confirmation
Patents
Permits
Price discrimination
Product liability
Profit sharing
Records, legal
Retirement pensions
Slander and libel
Stock options
Stockholder voting rights
Stockholders
Taxes
Tie-in Sales
Trade Secrets
Trademarks
Unfair competition
Verbal agreements
Wills
Worker's compensation
Zoning

(Managing for Profit, SBA, 1968.)

CLASSIFICATIONS OF RULES AND REGULATIONS

HOW CAN RULES AND REGULATIONS BE CLASSIFIED?

Regulations primarily cover four areas (1) commerce, (2) competition, (3) public health and safety, and (4) labor.

Commerce Regulations

The federal government regulates interstate commerce (among states). State government regulates intrastate commerce (within a state's boundaries). The two federal agencies that regulate commerce are the Interstate Commerce Commission (ICC) and the Civil Aeronautics Board (CAB).

Federal Licensing

ARE THERE FEDERAL LICENSES?

Some types of businesses are "licensed" by the federal government. The Federal Communications Commission (FCC) is an example of a federal agency with licensing power. The FCC licenses radio and television stations. If you wish to operate a radio or television station, the FCC will assign your station a frequency or channel.

The Civil Aeronautics Board (CAB) is another federal licensing agency. It licenses charter, passenger, and freight airlines. Individuals who qualify to operate private aircraft must also obtain a license from CAB. However, for intrastate commerce, individual state Public Utilities Commissions (PUCs) issue licenses to airlines operating only within the state boundaries.

Federal permits or licenses are issued by other government agencies. For example, any enterprise using government

property involved in the preparation of meat products (such as sausages and hot dogs) or involved in the production of drug products must obtain the required federal licenses.

If you plan to hire employees, you must obtain an employer's Social Security identification number through the Internal Revenue Service. This number is really a type of "license."

State Licensing

WHAT ABOUT STATE LICENSING?

Many states, counties, and municipal governments issue licenses and permits to various types of businesses. These requirements vary from state to state and from one city to the next.

States that have sales and use taxes usually require entrepreneurs to obtain a special license or permit. This license allows the entrepreneur to give the permit number when purchasing goods for resale in lieu of paying sales tax. Since the sales tax is a consumer tax, the entrepreneur is required to collect the tax when selling merchandise to consumers. Periodically, the entrepreneur must remit the taxes collected.

Some states require that cemetery brokers, dry cleaners, and collection agencies obtain special licenses before they open. In most states, enterprises that sell liquor must be licensed. To obtain these licenses, the applicant must file an application with the appropriate state, county, or city agency.

Every enterprise must also conform to local zoning laws, comply with building codes, and meet standards set by local health, fire, and police departments.

Laws Regulating Competition

ARE THERE LAWS DESIGNED TO REGULATE FAIR COMPETITION?

Competition is the cornerstone of the American business system, the free enterprise economy. Over the years, anti-trust laws have been enacted to maintain the conditions necessary for fair competition. Other laws prohibit monopoly (control of price or production of goods or services). The Federal Trade Commission (FTC) supervises these laws.

Three of the major federal laws enacted to protect competition among businesses include the Sherman Act (1890), the Clayton Act (1914), and the Robinson-Patman Act (1936). The Sherman Act was created to prevent businesses from restraining trade and monopolizing markets. Because of weaknesses in both the Act and its interpretation, the Clayton Act was passed. The Clayton Act prohibits price discrimination, exclusive agreements, and acquisition of the stock of another company when the effect would tend to lessen competition or to create a monopoly.

The Robinson-Patman Act prohibits price discrimination among different purchasers of commodities of like grade and quality if the effect of such discrimination may substantially lessen competition or tend to create a monopoly. Price differentials are legal if they can be justified on the basis of

cost savings or meeting competition in good faith. The Act prohibits paying, receiving, or accepting anything of value such as a commission, brokerage, or other compensation except for actual services rendered. In addition, it prohibits furnishing services or facilities at purchase terms not offered to all purchasers on proportionately equal terms.

Fair Trade Laws

WHAT ARE FAIR TRADE LAWS?

Resale price maintenance laws, also called "fair trade laws" have significantly changed in recent years. At one time, state laws permitted manufacturers to set the resale price at which dealers within a state were supposed to sell the firms' products. Many states adopted some form of fair trade laws. Such laws, passed during the Depression of the 1930's, were originally enacted to prevent large retailers from selling at such low prices that smaller retailers could not compete.

In interstate commerce, the use of resale price maintenance agreements was facilitated by the Miller-Tydinger Act of 1937 and the McGuire Act of 1952. However, resale price maintenance agreements between manufacturers and resalers violate the Sherman Act and are illegal. The Consumer Goods Pricing Act of 1975 prohibits the use of resale price maintenance laws in interstate commerce.

Credit Laws

WHAT ARE THE CREDIT LAWS?

The Truth-in-Lending Act (1968) requires full disclosure of all finance charges--the amount of money paid to obtain credit--on consumer credit agreements and in advertisements of credit plans. The law is primarily designed to allow consumers to be better informed about their credit purchases by letting them know exactly what the charge for the use of credit is. This way, comparisons of charges for different credit sources can be readily made. The Act, therefore, requires creditors to state finance charges in a uniform way to all customers. Customers must also be informed of the annual percentage rate, which provides a way of comparing credit costs regardless of the dollar amount of their costs or the length of time over which payments are made. Both the finance charge and the annual percentage rate must be displayed prominently on the forms and statements used by a creditor.

The Truth-in-Lending Act also protects the consumer against unauthorized credit card use. Should a credit card be lost or stolen, the maximum amount paid by the credit card holder for charges made by someone else is fifty dollars. In order for the card issuer to hold the credit card holder responsible for even the fifty dollar limit, the unauthorized use must have occurred before the card holder notified the card issuer of loss or theft. The card holder is not liable for any unauthorized use after notification to the card issuer.

If you are considering offering credit to your customers, you probably should request the free pamphlet, "What You Ought to Know About Truth-In-Lending," from any Federal Reserve Bank or from the Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

More recently, there have been federal and state laws that deal with equity in establishing and maintaining credit. The Fair Credit Billing Act (1974) is designed to provide the consumer with an opportunity to dispute errors in billing statements and to require creditors to make an effort to correct such errors. Your credit customers will have received procedures from creditors on how to correct errors. The Federal Equal Credit Opportunity Act of 1974 prohibits credit discrimination on the basis of race, color, religion, national origin, sex, marital status, age (providing that the person has the ability to enter into a binding contract); because all or part of a person's income comes from a public assistance program; or because a person has acted on their rights under the Federal Consumer Credit Protection Act. The former Act also gives married persons the right to have credit information included in credit reports in the name of both the wife and the husband if both use or are responsible for the account.

Consumer Legislation

WHAT LAWS PROTECT CONSUMERS?

Recently there has been increased interest in consumer legislation, based on consumer demand for more protection.

One result has been the enactment of federal regulations on warranties. The Magnusen-Moss Warranty - Federal Trade Commission Improvement Act of 1975 sets standards for those manufacturers who offer warranties.

The Magnusen-Moss Warranty Act and the follow-up Federal Trade Commission (FTC) rules have had a great effect on both manufacturers and retailers. Business people who sell consumer products that are priced above fifteen dollars must conform to the provisions of the Act and the FTC rules if written warranties are offered. The FTC rules regulating the Magnusen-Moss Warranty Act are outlined in "The New FTC Disclosure of Written Consumer Product Warranty Terms and Conditions," available from the FTC. The basic provisions of warranties, as explained in these rules and in the Act, generally require the warrantor to disclose information "in simple and readily understandable language." The information should include (1) what the warranty covers, (2) what the warranty excludes, (3) what the warrantor will do if the product should fail, and (4) step-by-step instructions the purchaser must follow to get the warranty honored.

Consumer Protection Agencies

WHAT IS THE FEDERAL TRADE COMMISSION?

An important agency regulating commerce is the Federal Trade Commission (FTC), an independent law enforcement agency. By enforcing antitrust laws and other statutes, the FTC tries

to establish and maintain fair competition in U.S. markets. The FTC's enforcement of antitrust laws centers on curbing deceptive advertising, packaging, and labeling; assuring truthful labels on wood, fur, and textile products; and guaranteeing proper disclosure in credit transactions.

The FTC carries out its duties by (1) monitoring television and printed advertising to locate possible deception and fraud; (2) investigating complaints of false advertising, oral misrepresentation, misbranding, restraint of trades and unfair business practices; (3) establishing and circulating guidelines designed to promote voluntary compliance with the law through improved business practices; (4) conducting economic studies of anticompetitive practices that are uncovered.

You may also find that your state has additional laws and agencies regulating consumer or trade credit. If your state does not have a Consumer Protection Bureau which deals with these legislations, you might check with the State Attorney General's Office.

Public Health and Safety Laws

HAS THERE BEEN AN INCREASE IN LAWS PROTECTING PUBLIC HEALTH AND SAFETY?

This legislation is designed to keep the general public healthy. The Federal Food and Drug Administration is an agency with the primary responsibility of seeing that purchased food, drugs, and cosmetics are safe if consumed. Recent emphasis on environmental laws also relate to maintaining an

environment that is healthy and safe.

Consumer protection legislation has had tremendous growth since the mid-1950s. The Textile Fiber Products Identification Act (1958) was designed to guard producers and consumers against misbranding and false advertising of fiber content of textile fiber products. The Fair Packaging and Labeling Act of 1966 declared that unfair or deceptive packaging or labeling of certain consumer commodities was illegal.

Laws to protect consumers are based on the belief that consumers do not have the time or the knowledge to evaluate all products and services they purchase. Such laws therefore primarily deal with product safety and disclosure of information. For example, the Pure Food and Drug Act (1906) prohibits adulteration and misbranding of foods and drugs sold in interstate commerce. The Food, Drug, and Cosmetic Act (1938) prohibits the adulteration and sale of foods, drugs, cosmetics, or therapeutic devices that may endanger public health. The Act of 1938 allows the Food and Drug Administration to set minimum standards and to establish guides for food products.

Worker Protection Regulations

WHAT ARE THE WORKER PROTECTION LAWS?

These laws protect workers from unfair wage practices and unsafe working environments. The Fair Labor Standards Act, which regulates minimum wages, is a good example of a law designed to protect workers. By 1981, employers will be required to pay at least $3.35 an hour.

Occupational Safety and Health Administration

WHAT IS OSHA?

Certain laws are designed to protect worker health and safety. One law that has had major impact on all types of businesses is the Occupational Safety and Health Act of 1970. This Act compels employers to provide their employees with safe and healthy places to work, as well as to follow a certain standard of safety and health procedures that protect the workers.

The Act also created the Occupational Safety and Health Administration (OSHA). OSHA has appointed investigators who have the authority to enter and inspect a business without any notice to the owner. OSHA issues citations and sometimes penalties if violations are found. If a business does not respond and correct the cited violations, the business can be fined as much as $1,000 per violation and can face possible criminal prosecution. Employees can report unsafe conditions and practices to OSHA.

Many small business owners have voiced concern about OSHA. These owners, some of whom consider the law a necessity, note that their heavy workloads leave little time to comply with one more regulation. What can a small business person do to ease the burden? Below are some steps that you, as a small business person, can take to meet OSHA requirements and yet not make the task overwhelming.

First of all, you should make certain that all employees

are acquainted with OSHA and the company's safety regulations. This is especially important once safety hazards have been identified and corrected. The required poster, "Safety and Health Protection on the Job," must be posted at the workplace. It informs employees of their rights and responsibilities. Regulations should also be posted.

Second, if you have more than ten employees, you must also keep the following three forms up to date:

1. OSHA form 100 -- A log of occupational injuries and illnesses
2. OSHA form 101 -- Supplemental record of each injury or illness
3. OSHA form 102 -- Annual summary. This form must be posted for employee review for at least a one-month period, starting February 1 of each year.

Maintaining these forms is usually all the recordkeeping required of the business owner. However, if there is a fatality or an accident that results in the hospitalization of five or more employees, it must be reported to the nearest OSHA office. (Adapted from Journal of Small Business Management, October 1977, pp. 6-7.)

Third, the small business owner must become acquainted with OSHA standards in addition to learning how to perform a workplace inspection. You will find several sources of information helpful, including "OSHA Standards for General

Industry," available from the Commercial Clearing House, Chicago, Illinois, and the publications listed in "Sources to Consult for Further Information," of this unit. You may also request an informal visit to your business by OSHA inspectors who will assist you in verifying compliance. Requested visits will not result in citations. However, you should develop a checklist for periodic safety inspections to insure your workplace is kept safe and healthful at all times.

Regulation of Employment Practices

ARE HIRING PRACTICES REGULATED BY LEGISLATIONS?

In recent years, many laws have been issued to insure equal employment opportunity.

The first major piece of legislation in this area was the Equal Pay Act of 1963, which required all employers subject to the Fair Standards Act to provide equal pay for men and women performing similar work. In 1964, the Civil Rights Act was passed, and one of its major provisions was Title VII. This prohibits discrimination because of race, color, religion, sex, or national origin in all employment practices, including hiring, firing, promotion, compensation and other terms, privileges, and conditions of employment. The next major statute was the Age Discrimination in Employment Act of 1967, which prohibits employers of 25 or more persons from discriminating against persons 40 to 65 in any area of employment because of age.

In 1972, the Equal Employment Opportunity Act, which amended the Civil Rights Act of 1964, was passed. This act greatly strengthened the powers and expanded the jurisdiction of the Equal Employment Opportunity Commission (EEOC), the agency that enforces this law. As amended, Title VII now covers: (1) all private employers of 15 or more persons, (2) all public and private

educational institutions, (3) state and local governments, (4) public and private employment agencies, (5) labor unions with 15 or more members, and (6) joint labor-management committees in apprenticeship and training.

The passage of the Equal Employment Opportunity Act meant a much greater role for the EEOC. Prior to 1972, the EEOC was primarily a receiver and investigator of job discrimination complaints. However, the EEOC is now authorized to go directly to court to enforce the law if conciliation does not eliminate the discrimination. In addition, the 1972 Act also provides that charges may be filed by organizations on behalf of individuals suffering discrimination. Employees and job applicants had already been given the right to go to court to sue employers directly for alleged discrimination actions. (Journal of Small Business Management, October 1977, pp. 1-2.)

Worker's Compensation

WHAT IS WORKER'S COMPENSATION?

Worker's Compensation provides benefits for injured workers or their dependents regardless of who is at fault. If a worker is killed or injured on the job, the worker or the worker's dependents collect according to a schedule based on the severity of the injury. The worker forfeits benefits if the injury results from a fight he or she started, the injury was self-inflicted, or if the worker was under the inflence of alcohol or drugs.

The employer pays the total cost of worker's compensation coverage. You, as the employer, are required to have worker's compensation coverage through state or private insurance companies. Requirements vary from state to state. Worker's compensation plans are usually administered by a state department of labor or a special board or commission.

You should check with your state labor office to be sure of the exact rules and regulations which apply to your business.

TAX LAWS

WHAT ABOUT TAXES?

Tax laws will affect any business venture. Therefore, they should be considered important factors in all business planning. Taxes affect both long-term and short-term business plans.

The entire topic of taxes is technically complex and ever-changing. You will probably find that you do not have the time to keep up-to-date on the latest tax regulations and court tax law interpretations at the local, state and federal levels.

Hiring the services of a good tax adviser, or Certified Public Accountant will probably be very helpful for you. Advice from experts in the tax field can keep you from making costly mistakes and save you money, in addition to decreasing the amount of your paperwork.

The owner-manager of a business is liable for paying many different taxes such as state taxes, federal taxes, and local taxes. For example:

> *The average small business in Cleveland files about 110 tax-related documents year; it files corporate income tax once a year, personal-property tax twice a year, federal unemployment tax four times ayear, state tax 12 times a year*

and payroll tax 52 times a year. In between, it files franchise taxes, real-estate taxes, city taxes, state unemployment taxes and many others.

Paper work costs small businesses a staggering $15 billion to $20 billion a year, according to a recent report by the Commission on Federal Paperwork. And much of the federal government's own $30 billion a year paperwork bill is spent on regulating small businesses. (The Wall Street Journal, November 21, 1977, p. 1.)
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Each of these taxes affects companies differently. The effect a tax has on a company is very often determined by the practices used by that company. The business activities listed below illustrate how a company's business policies and practices can affect the taxes paid.

TAX EFFECTS IN BUSINESS ACTIVITIES

Business Activity	*Tax Considerations*
Inventory	*Taxes paid on inventories are based on the value of the inventory. Selection of fiscal year-ending to coincide with low inventory levels will save taxes. Method of valuing inventory will affect inventory amounts. Inventory-reduction programs prior to assessment dates are effective in reducing taxes.*
Asset Acquisition	*Selection of the best depreciation method to be used can affect profits. Evaluation of the tax benefits of leasing compared with owning should be explored. Consider the tax benefits of using or buying secondhand or used equipment.*

Business Activity	*Tax Considerations*
Employment/Wages	*Careful evaluation of how many workers are required will keep employer's contributions to social security taxes and unemployment taxes at a minimum. Tax effects of wage payment plans based on stock options and deferred payments of wages should be considered.*
Profit Planning	*Legal form of business can offer tax advantages which increase profits. Maximizing legitimate tax deductions should be a major thrust of financial planning.*
Capital Gains and Losses	*Timing of transactions such as sale of assets, and acquisition of new assets or new businesses should consider impact on taxes.*

(Principles of Business Management, 1977, p. 501.) From Principles of Business Management by W.N. MacFarlane. Copyright © 1977 by McGraw-Hill Book Company. Used with permission of McGraw-Hill Book Company.

As a business owner you will assume two roles in managing taxes. In one role, you are a debtor; in the other role, you are an agent. As a debtor, you are responsible for various taxes and must pay them as part of your business obligations. For example, each year you owe both federal income taxes and local real estate tax if you own the business building.

In the role of agent, you, the business owner, collect various taxes and pass the funds on to the appropriate government agency. For example, each payday you deduct federal income and social security taxes from the wages of your employees.

Federal Taxes

WHAT DOES THE ENTREPRENEUR DO AS A DEBTOR?

One type of taxes with which we are all familiar are federal income taxes. In paying income taxes, the business owner is again both a debtor and an agent. As a debtor, the amount of federal income tax you will pay depends on the income of your firm. The type of business structure--sole proprietorship, partnership, or corporation--in addition to any other income, exemptions, and personal deductions (nonbusiness deductions) will all determine the amount of federal income tax you will pay.

If you are the sole proprietor of your business, you pay your income tax just like any other individual. You will file the same forms except you will prepare an additional form, Schedule C, form 1040, and attach to form 1040. If you are involved in farming, you will also need to prepare Schedule F, form 1040.

Should your business be a partnership or a corporation, there are some differences in the forms you must file as well as the dates for remitting tax payments. The SBA publication, Steps in Meeting Your Tax Obligation, (Small Marketer's Aid No. 142), is a useful document in understanding how the structure of a business organization affects its federal income taxes.

Withholding Federal Taxes

HOW DOES THE ENTREPRENEUR ASSUME THE ROLE OF AGENT?

If you have employees, then as the business owner you have the role of tax agent. The taxes you withhold as a tax

agent are remitted to the government following set rules, procedures, and due dates. Remitting withholding involves two steps:

1. Reporting the federal income tax and social security taxes withheld from employees' pay
2. Depositing the funds withheld.

Tax return form 941 is used to report withholding and social security taxes to the government. The report is due quarterly on each April 30, July 31, October 31, and January 31.

WHAT ABOUT WITHHOLDING TAXES?

Income Taxes. When you hire an employee, you have the employee sign a Form W-4 "Employees Withholding Allowance Certificate." On the form the employee lists the exemptions and additional withholding allowances claimed. This completed form gives you the authority to withhold income tax according to the withholding tables issued by the Internal Revenue Service (IRS).

Your employees make federal income tax payments each payday through you. You "withhold" these taxes and pass these payments on to the government at stated periods of time. At the end of the year, you will be required to provide every employee who worked for you during the previous year a W-2 form listing total wages and taxes deducted for the entire year.

WHAT ABOUT WITHHOLDING SOCIAL SECURITY TAXES?

Social Security Taxes. As a business owner, you will assume both the role of an agent and a debtor in paying social security taxes. Social security taxes are both employer and employee taxes. As an agent, you will withhold the tax which each employee owes. Then, as a debtor, you will match these employee withholdings. For example, in 1979 social security taxes were deducted at the rate of 8.1% on the first $17,700 of an employee's wages. You must match the amount you withhold from your employees.

If you are interested in using social security for your own retirement, you must naturally pay the tax for yourself. For additional information, see the SBA publication Retirement Plans for Self-Employed Owners-Managers, (Small Marketer's Aid No. 131).

Other Federal Taxes

ARE THERE OTHER FEDERAL TAXES?

Federal excise taxes are levied on the sale or use of certain items, certain types of transactions, and on certain occupations. For example, there is an occupational tax on retail dealers of adulterated butter, retail beer and liquor dealers, and on wholesale beer and liquor dealers. A retailer's excise tax is levied on diesel fuel and special motor fuels. Check with your local IRS office if you are in doubt about the excise tax liability of your business.

Your firm is liable for federal unemployment taxes if you paid wages of $1,500 or more in any calendar quarter,

or you had one or more employees working at least some portion of one day during twenty or more calendar weeks. The twenty weeks do not have to be consecutive. This federal unemployment tax is paid by the employer, and not deducted from the employee's wages. Federal unemployment tax must be paid on or before each January 31 for the preceding year.

State and Local Taxes

WHAT ABOUT STATE TAXES?

Although state taxes vary from state to state, the three major types of state taxes are unemployment taxes, income taxes, and sales taxes. Many local governments also have income and sales taxes. It is essential to know what taxes your state and local governments require you to pay as a debtor and what taxes it requires you to collect as an agent.

Every state has unemployment taxes. The requirements vary significantly among states. In some states, employees and employers contribute to unemployment taxes. The rate of tax charged is usually based on your firm's unemployment experience, coupled with the unemployment experience of your state.

Many states now have a state income tax. In some cases, the employer withholds state income tax from the employee's wages. In most cases, the state tax returns are similar to those used by the federal government.

Many states also have sales taxes. The entrepreneur collects the sales tax from customers and transmits it to the state agency.

WHAT ABOUT LOCAL TAXES?

Counties, municipalities, towns and cities impose various kinds of taxes on businesses. These might include real estate taxes, personal property taxes, and taxes on gross sales. Some cities even have an income tax.

Meeting Tax Obligations

WHAT ARE AN ENTREPRENEUR'S TAX OBLIGATIONS?

If you hire employees, whether they be full-time or part-time, you will be responsible for taxes, forms, and insurance requirements. Depending upon the city and state you are in, you will be responsible for meeting federal, state, and possibly city requirements.

Be sure to contact the Internal Revenue Service (IRS) office in your area before you hire any employees. Request the form that must be filled out to receive an Employer's Identification Number. You will need this number for all federal, state and local tax forms. The IRS will also send you the necessary forms for deposits and reportings. Also obtain a copy of the Employer's Tax Guide that will give you all the information you need to know about how and when to deduct and pay federal withholding taxes, social security taxes (FICA or FOAB) and federal unemployment taxes.

Contact your state government offices for the necessary information. Be sure you also call your state taxing agency

and ask for all the necessary forms and information concerning withholding and unemployment taxes.

You should check with your local authorities to make sure your business is assuming its local obligations. If you are located in a city that has withholding taxes, request information from the city taxing agency.

All of these agencies are listed in your phone directory. Look under the heading "United States Government" for the Internal Revenue Service, under the heading of your state government for state tax agencies, and under your city government for city tax agencies.

Successful entrepreneurs meet their tax obligations by following sound management principles. The SBA publication, Steps in Meeting Your Tax Obligations (Small Marketers Aid no. 142) lists the principles that should be followed to meet your tax obligations.

1. Know your tax liability. What kind of taxes do you have to pay? How much are they in dollar amounts? When are they due?
2. Set aside the funds necessary to pay various tax bills.
3. Pay taxes on time avoid penalties for late payment.
4. Get advice from experts, such as an accountant, lawyer, or tax counselor.

EXPLORATION ACTIVITIES

Do you feel you know enough about government rules and regulations to put your knowledge into practice? The following activities will help you experience some "real" problems and give you an opportunity to practice your skills. After completing the activities, do a self-evaluation to check your understanding of the material.

ASSESSMENT ONE

1. Develop policy statements for your proposed firm which comply with the following human resource areas:
   a. Employment safety (OSHA in particular)
   b. Equal Employment Opportunity Act
   c. Equal Pay Act of 1963
2. Visit or call your local and state tax agencies to determine the taxes for which your business will be responsible. Identify the following: your rate, debtor and agent role, how tax is computed, and due date. You might want to use the following chart to compile your information.

My Business Aspiration:

Taxes Responsible	Role Explained (debtor and/or agent)	Computation of Tax	Tax Due Date
A. State			
B. Local			

3. Prepare a paper no longer than one page explaining the impact of OSHA on your future enterprise. Obtain as many resource materials on OSHA as possible from your library. Ask local experts to help your write the paper, making it as specific as possible.
4. Assume your business will offer consumer credit. With which federal consumer credit acts will your firm need to comply? Explain each in detail. You may want to contact the owner of a local business similar to one which you would like to begin for information and counsel.

5. Discuss the Robinson-Patman Act. Of what value is it to small business?
6. Design a listing of persons or agencies to contact to clear up any problems you might have in complying with federal, state and local tax legislation.

POSTASSESSMENT

1. List five potential areas in which legal responsibilities and obligations might exist.
2. Name two federal agencies that issue licenses and describe the businesses they license.
3. Identify and briefly describe three major federal laws enacted to protect competition among businesses.
4. Discuss the Magnusen-Moss Warranty Act.
5. What roles must a business owner assume in managing federal, state and local taxes?

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. It you feel you don't know the material well enough, it might be helpful to review this section before going on.

PREPARATION/
ADAPTATION

PREPARATION/
ADAPTATION

PART II, UNIT D
GOVERNMENT REGULATIONS
AND SMALL BUSINESS

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Preparation/Adaptation Activities" section and measure what you've learned.

1. What state laws do you think you will be required to follow in your business?
2. What steps or procedures will you have to follow in withholding and transmitting federal income taxes?
3. Name four federal agencies and briefly describe their functions.
4. What is the Magnusen-Moss "Truth-in-Warranties" Act of 1975? What is the difference between implied and expressed warranties?
5. How would you set up a Human Resource Program for your firm? What rules and regulations would you have to follow?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction you should be able to:

1. Discuss the various regulations that will affect your business operation.
2. Identify and locate the closest offices of appropriate government agencies that can provide you with information on compliance with the various rules and regulations concerning your firm.
3. Prepare a complete set of tax reports based on estimated data for your firm.
4. Develop policies on how your business will comply with federal rules.

SUBSTANTIVE INFORMATION

IMPORTANCE OF RULES AND REGULATIONS

WHAT DOES REGULATORY COMPLIANCE COST?

The Commission on Federal Paperwork estimated not long ago that small businesses spend an average of $3,000 a year each on regulatory paperwork. Over the last 6 years, the SBA has lent more than $44 million for compliance with the Occupational Safety and Health Act, and another $50 million for costs imposed by consumer-protection regulations.

(Fortune, November, 1977.)

It has been said that one must be a lawyer to interpret all of the rules and regulations. You do not necessarily need to be a lawyer; however, you cannot plead ignorance. Ignorance is not an acceptable excuse in the eyes of the law. If you, as a business owner, are unable to interpret rules and regulations, you should secure legal or governmental help.

Regardless of the type of business you own, there are laws and legal regulations to which your business must conform. It is important to remember that these rules and regulations were created for a variety of reasons, including the following:

1. To protect citizens from business practices believed to be harmful
2. To protect employees' interests
3. To protect, in general, public health and safety
4. To protect the right to organize

5. To protect competitors against other competitors who use unfair prices and practices
6. To protect consumers from the sale of harmful goods, from false advertising and selling, and from businesses that work together to keep prices high.

Administrative Agencies

WHO SUPERVISES RULES AND REGULATIONS?

A variety of administrative agencies function at the federal, state, and local levels. Often they supplement the work of regular government executive departments and relieve the courts and legislative bodies of much detail work. Their duties and powers vary widely, but the table below suggests the scope of their work.

Federal Agency	Area of Supervision
Nuclear Regulatory Commission (NRC)	Nuclear energy development for civilian and possible military uses
Civil Aeronautics Board (CAB)	Air transport
Consumer Products Safety Commission (CPSC)	Safety of products used by consumers
Environmental Protection Agency (EPA)	Protection of the environment including pollution and waste disposal
Equal Employment Opportunity Commission (EEOC)	Enforcement of employment rights without regard to race, color, creed, national origin, or sex
Federal Communications Commission (FCC)	Radio, television, telephone, and telegraph communication
Federal Power Commission (FPC)	Oil, gas, and electricity production and distribution
Federal Reserve Board (FRB)	Money and credit supply

Federal Agency	Area of Supervision
Federal Trade Commission (FTC)	Unfair competition, deceptive consumer practices, monopoly
Food and Drug Administration (FDA)	Purity of goods, drugs. and cosmetics, packaging and labeling
Interstate Commerce Commission (ICC)	Railroad, truck, bus, and inland waterway transportation
National Labor Relations Board (NLRB)	Labor-management relations
Occupational Safety and Health Review Commission (OSHC)	Protection of employees on the job
Securities and Exchange Commission (SEC)	Issuance of securities and trading securities
Small Business Administration (SBA)	Aid to small business
Social Security Administration	Old-age survivors, disability and health insurance

State Agency	Area of Supervision
Agricultural Price Stabilization	Food production quotas and prices
Alcoholic Beverage Control	Liquor licenses
Public Utilities Commission	Public utilities firms regulations
Workers' Compensation Board	Damage awards for work-related injuries and deaths

County and City Agencies	Area of Supervision
Airport Board	Acquisition and operation of county airports
Planning Commission	Approval of land use and development
Parks and Recreation Board	Acquisition/operation of parks

County and City Agencies	Area of Supervision
Air Pollution Control Board	Establishment/enforcement of air purity standards
Library Board	Library operation
Public Housing Authority	Acquisition/operation of public housing projects
Redevelopment Agency	Condemnation/razing/redevelopment of slum and blighted areas
Transit Authority	Operations of local bus and rail transit systems
School Board	Operation of public schools

(Adapted from Applied Business Law, 1977, p. 79.)

LICENSING

WHAT IS INVOLVED IN OBTAINING A LICENSE?

Licensing usually means registering a business. Paying a fee to obtain the license is common. Sometimes an inspection of the business is required.

Many enterprises must be licensed by a local, state or federal agency before opening for business. State governments restrict entry into various professions and types of businesses by requiring licenses. Additional regulations might be required of the business, such as yearly inspection of the business by a state government agency or payment of an annual tax.

Licensing controls directly affect many small businesses. The degree of regulation will vary, depending upon the type and location of the enterprise. If your operations are intrastate you will be concerned primarily with state and local, rather than federal licensing. Among the businesses frequently subject to state or local control are retail food establishments, drinking places, barber shops, beauty shops, plumbing firms, and taxi companies. Most of these are servicing businesses. They are subject to regulation for the protection of public health and morals.

Retail stores, devoted exclusively to handling merchandise, may not be required to have a license but are subject to regulations such as those dealing with fire, safety, and zoning restrictions.

Most licenses require payments of fees and are usually issued on an annual basis. Ordinarily, as a prerequisite to the issuance of a license, a written application is required. State, municipal and county authorities should be contracted for complete information regarding licensing. (Business Principles and Management, 1973, p. 617.)

The following businesses are usually licensed:

- Restaurants and food-handling businesses
- Barber shops and beauty shops
- Cleaning and laundering establishments
- House-to-house peddlers and solicitors
- General stores
- Liquor stores
- Finance and lending institutions
- Dealers and local distributors
- Transportation businesses
- Businesses operating in a foreign state
- Hotels and motels
- Insurance companies.

ANTITRUST LAWS

WHAT ARE ANTITRUST LAWS?

In the American business system, competition is the cornerstone of our free enterprise economy. The purpose of antitrust laws -- literally, laws directed against giant business combinations -- is to preserve the conditions necessary for competition and thus to protect our economic system itself.

Businesses in the United States are under the protection of and are subject to the restraints of the federal antitrust laws. Legislated under the "interstate commerce" power of Congress, these laws affect virtually every business. Hardly any retail, service or manufacturing business is so small or local that federal antitrust laws do not apply. For example, antitrust laws have been applied against motion picture exhibitors, bowling alley proprietors, and garbage collectors.

These laws are particularly important to small business owners who are often the beneficiaries of antitrust legislation. It is in the self-interest of any business person, particularly small business owners, to be familiar with and comply with antitrust laws.

An Antitrust Compliance Program

WHAT SHOULD ENTREPRENEURS DO TO COMPLY WITH ANTITRUST LAWS?

As a small business owner, you should consider developing an antitrust compliance program. If you decide to do so, you should probably enlist the help of a lawyer. Legal counsel must be well briefed concerning this particular facet of the company's business.

An antitrust compliance program normally has many components. The first component is the development of a company policy on antitrust. Such statements should indicate the reasons for complying with antitrust law and the obvious types of violations of antitrust law that should be avoided. The policy statement should receive wide circulation within the company to all appropriate personnel.

Secondly, the compliance program must contain some means of training personnel concerning the antitrust laws. Employees can only be expected to follow policies they understand.

The third component of a good compliance program includes the establishment of internal company procedures to implement the company antitrust policy. Company procedures concerning pricing, termination of dealers, marketing of new products, trade association activities, or refusals to deal should all be considered when developing the policies.

An additional component of antitrust compliance programs normally includes a documentation system. Documents that supply information that antitrust was duly considered in formulation of policies and in the decision-making procedures of the company should be developed. For example, as the company develops its new pricing policies, documents that indicate the rules of antitrust were considered in the formulation of the pricing policy should be prepared. Every effort to stay within the boundaries of antitrust should be noted. The documents are

to be preserved for possible future defense against charges of antitrust violations, and could supply valuable evidence to convince a jury or court of the company's desire to comply with antitrust laws. Such evidence is pertinent in establishing that no evil intent existed in the minds of company officials.

The last component of an antitrust compliance program would include periodic audits of existing company antitrust policies, educational programs, decision-making procedures and documentation systems. The changing aspects of the law and of company operations necessitate the periodic audit. The audit should determine whether the compliance components are effective and whether any modifications are necessary.

Major Antitrust Legislation

WHAT IS THE MAJOR ANTITRUST LEGISLATION?

No matter what policies small firms establish to comply with antitrust laws, it is vitally important for you, the owner, to have an overview of the antitrust laws that are particularly relevant to the small business firm. There are four principal antitrust laws in addition to a number of related federal statutes. The meaning of the statutes has been clarified and interpreted by numerous court decisions over the years.

Sherman Act

The chief antitrust statute, the Sherman Act of 1890, prohibits conspiracies and understandings that unreasonably restrain trade. Some kind of joint or concerted action between two or more persons or companies must exist for Section 1 of the

Sherman Act to apply. Section 2 of the Act prohibits "monopolization or attempt to monopolize" any product line or geographical area of commerce.

Clayton Act

The Clayton Act of 1914 prohibits mergers and acquisitions which may substantially lessen competition in any line of commerce. Another section makes it unlawful to sell commodities on condition that the buyer will refuse to deal in the goods of competing sellers. Such "exclusive dealing" arrangements are illegal if they have the probability of substantially lessening competition in any line of commerce.

Robinson-Patman Act

The Robinson-Patman Act of 1936 generally restricts a seller from discriminating in price between buyers. This Act also covers indirect discrimination by the unequal allocation of allowances for promotional services.

To determine whether a Robinson-Patman violation has occurred, one should ask whether the company has made sales:

1. At different prices
2. Within a reasonable contemporary time-period (this may vary depending upon the competitive market; six months is a good rule of thumb)
3. In interstate commerce (however, price discrimination occurring totally intrastate may violate state laws)

4. Of products of like grade and quality (no significant difference from a commercial standpoint)
5. To customers where injury to competition at the seller, buyer or sub-buyer level will probably result.

If any of the above criteria are present, the price difference may, nevertheless, be defended under the law if the lower price was given in good faith to meet (but not beat) a price offered by a competitor. In addition, the difference between the prices charged to the favored and nonfavored customer may be "cost-justified" on the basis of cost savings realized by the seller in its sale and delivery expenses in dealing with the favored customer. Of course, if the price change occurs because of changes in the market or the marketability of the goods, no violation occurs.

(Adapted from Journal of Small Business Management, October 1977, pp. 10-16.)

The Federal Trade Commission Act

The Federal Trade Commission Act of 1914 created the Federal Trade Commission, an administrative body of experts delegated to determine and prohibit "unfair methods of competition." The Commission can determine that anything that violates one of the federal antitrust laws is also illegal under the Federal Trade Commission (FTC) Act. The Commission is also empowered to find anything which violates the spirit,

although not the letter, of the federal antitrust laws unlawful under the FTC Act. For example, the Robinson-Patman Act makes a buyer liable for inducing discriminatory prices, but not discriminatory advertising allowances. The Commission, nevertheless, has successfully established the latter practice as unlawful under the FTC Act. The Commission's duties also include prohibition of false and misleading material in advertising, warranties and promotional activities. In short, the Commission's responsibilities include attacking most types of unethical business conduct. However, under the FTC Act the Commission's enforcement is limited to a "cease and desist" order.

State Laws

Many states have enacted their own antitrust laws. State antitrust laws vary considerably. However, in spite of the differences, the practices prohibited at the state level are comparable to those covered under federal law. Investigate your state antitrust laws, since they may have a specific prohibition of some practice or a rule of interpretation differing from the federal. (Adapted from Journal of Small Business Management, October 1977, p.18)

CONSUMER PROTECTION REGULATIONS

WHAT ABOUT CONSUMER CREDIT REGULATIONS?

Consumer Credit

If you operate a small business that issues consumer credit, there are several federal rules and regulations with

which you must comply. The Truth-in-Lending Act is one of these laws. You must be sure to inform your customers of the exact terms of the credit you are extending and what procedures they are to follow if they wish to inquire about their bill. The following two pages show the type of notification a major creditor sends to its customers to comply with the Truth-in-Lending Act. If you participate in major credit plans, such as Master Charge or Visa, you should be sure that they are notifying their customers properly. If you extend your own credit, make sure that you are providing the proper notification required by the Truth-in-Lending Act.

Warranty Protection

WHAT ARE IMPLIED AND EXPRESS WARRANTIES?

In a legal sense, all products carry a minimum warranty, except under certain conditions involving warranty disclaimers. These warranties are either implied or express. The implied warranty is from the common law, merely warrants that the product will perform the function it is designed for, with no assurance of how well or how long. Express warranties, on the other hand, normally are written expressions of the post-purchase responsibilities of both parties involved in the transaction.

Express warranties are classified as being either protective or promotional. A protective warranty, as its name implies, provides protection for the seller against unreasonable claims by the purchaser by limiting the seller's responsibilities toward the buyer. They are commonly used in the marketing of durable goods, because these products, which tend to be complex in design and expensive, have a greater likelihood of wide variations in performance than nondurable goods. Moreover, the growing inclination of the public to resort to the courts to correct perceived product deficiencies of durable products has made sellers more likely to use the warranty as a protective device, and reduce

Michigan Bankard™ Visa® Terms and Conditions

(If joint account, read singular pronouns in the plural.)

I agree with Michigan National Bank ("Bank") as follows:

CUSTOMER PAYMENT SCHEDULE—TRUTH IN LENDING ACT DISCLOSURE

1. A **FINANCE CHARGE** will be added to my account:
   (a) On a Bankline® purchase or a Cash Advance (including the use of a Michigan Bankard VISA check), even if I pay the entire "new balance" by the "payment due date" shown on my monthly billing statement on which such a transaction first appears.
   (b) On all other charges, unless I pay the entire "new balance" by the "payment due date" shown on my monthly billing statement on which such charges first appear, in which case, no **FINANCE CHARGE** will be added for such other charges.

   Whenever a **FINANCE CHARGE** is added to my account it will be at a periodic rate of **1.5%** a month (an **ANNUAL PERCENTAGE RATE** of **18%**), and it will be added for a time period beginning the day that the transaction(s) subject to a **FINANCE CHARGE** posted to my account.

2. The amount of the **FINANCE CHARGE** is figured by multiplying the periodic rate by the "average daily balance." The "average daily balance" is computed by adding up the outstanding daily balances in my account during the time period for which a **FINANCE CHARGE** is being imposed for: (a) Bankline purchases, (b) Cash Advances (including Michigan Bankard VISA check transactions), and (c) Amounts owed for all other charges reflected as "new credit purchases" in any prior billing statement, for which I did not pay the "new balance" in full as described in Paragraph 1 (b) above. This sum is then divided by the number of days in the billing cycle, and the result is the "averge daily balance."

3. The "new balance" on the billing statement is the total of the "previous balance" together with amounts advanced for Bankline purchases, cash advances (including Michigan Bankard VISA checks), and "new credit purchases," less payments and credits posted to the account, plus the imposed **FINANCE CHARGE.**

4. The minimum monthly payment required is determined by the "new balance" on my monthly billing statement in accordance with the following schedule:

Amount of "New Balance"	Minimum Monthly Payment	Amount of "New Balance"	Minimum Monthly Payment
If under $10	Pay amount of the "new balance"	From $1,000 up to $1,499	$ 50.00*
From $10 up to $299	$10.00*	From $1,500 up to $1,999	$ 75.00*
From $300 up to $449	$15.00*	From $2,000 up to $3,499	$100.00*
From $450 up to $649	$20.00*	If over $3,500	3% of "new balance"*
From $650 up to $999	$30.00*		

*Plus amounts past due and amounts overlimit (excluding Bankline)

5. If my account has a credit balance and has no activity for two (2) years, Bank may then charge a handling fee of One Dollar ($1.00) per month to my account: (a) until the credit balance is gone; (b) I request a refund of any remainder; or (c) more credit is extended; whichever happens first.

CUSTOMER AGREEMENT

6. To pay Bank the amounts charged to my account, including **FINANCE CHARGES** according to the above payment schedule. Each monthly billing statement will be considered a correct statement of the account unless I establish a billing error under the provisions of the Federal Truth In Lending Act.
7. To give Bank prompt notice if I lose my card;
8. That the card may be cancelled by Bank at any time;
9. To surrender the card upon demand of Bank;
10. To waive and release Bank from all defenses, rights and claims I may have against any person or company honoring this card or not permitting a charge, except where such rights cannot be waived as under the Fair Credit Billing Act. (See reverse side)
11. That if I do not perform any of the terms of this Agreement, the Bank may declare my entire unpaid balance immediately due and payable;
12. That this Agreement is controlled by Michigan law;
13. That only certain goods approved by Bank will be available for a Bankline purchase from cooperating merchants;
14. To keep the balance on my account within the credit limit set by Bank;
15. That transactions occurring outside of the United States, when posted to my account in U.S. dollars, may be more or less in U.S. dollar amount than when I made the charge, due to changes in the foreign exchange rate;
16. That Bank has the option to change the terms of this Agreement to take effect 15 days after a written notice of the change is sent to me; and
17. That I may cancel this Agreement with Bank at any time by notifying Bank in writing and returning my card(s). I shall remain obligated to Bank for all charges made prior to such cancellation, and the Bank may declare my balance due and payable together with all applicable **FINANCE CHARGES.**

NOTICE: See reverse side for important information regarding your rights to dispute billing errors.

In Case of Errors or Inquiries About Your Bill

The Federal Truth in Lending Act requires prompt correction of billing mistakes.

1. If you want to preserve your rights under the Act, here's what to do if you think your bill is wrong or if you need more information about an item on your bill:

a. Do not write on the bill. On a separate sheet of paper write (you may telephone your inquiry but **doing so will not preserve your rights under this law**) the following:

i. Your name and account number (if any).

ii. A description of the error and an explanation (to the extent you can explain) why you believe it is an error.

If you only need more information, explain the item you are not sure about and, if you wish, ask for evidence of the charge such as a copy of the charge slip. Do not send in your copy of a sales slip or other document unless you have a duplicate copy for your records.

iii. The dollar amount of the suspected error.

iv. Any other information (such as your address) which you think will help the Bank to identify you or the reason for your complaint or inquiry. It will be helpful to include the Reference Number for the disputed items as shown on the bill.

b. Send your billing error notice to the address on your bill which is listed after the words: "Send Inquiries to:"

Mail it as soon as you can, but in any case, early enough to reach the Bank within 60 days after the bill was mailed to you. If you have authorized your bank to automatically pay from your checking or savings account any credit card bills from that bank, you can stop or reverse payment on any amount you think is wrong by mailing your notice so the Bank receives it within 16 days after the bill was sent to you. However, you do not have to meet this 16-day deadline to get the Bank to investigate your billing error claim.

2. The Bank must acknowledge all letters pointing out possible errors within 30 days of receipt, unless the Bank is able to correct your bill during that 30 days. Within 90 days after receiving your letter, the Bank must either correct the error or explain why the Bank believes the bill was correct. Once the Bank has explained the bill, the Bank has no further obligation to you even though you still believe that there is an error, except as provided in paragraph 5 below.

3. After the Bank has been notified, neither the Bank nor an attorney nor a collection agency may send you collection letters or take other collection action with respect to the amount in dispute; but periodic statements may be sent to you, and the disputed amount can be applied against your credit limit. You cannot be threatened with damage to your credit rating or sued for the amount in question, nor can the disputed amount be reported to a credit bureau or to other creditors as delinquent until the Bank has answered your inquiry. **However, you remain obligated to pay the parts of your bill not in dispute.**

4. If it is determined that the Bank has made a mistake on your bill, you will not have to pay any finance charges on any disputed amount. If it turns out that the Bank has not made an error, you may have to pay finance charges on the amount in dispute, and you will have to make up any missed minimum or required payments on the disputed amount. Unless you have agreed that your bill was correct, the Bank must send you a written notification of what you owe; and if it is determined that the Bank did make a mistake in billing the disputed amount, you must be given the time to pay which you normally are given to pay undisputed amounts before any more finance charges or late payment charges on the disputed amount can be charged to you.

5. If the Bank's explanation does not satisfy you and you notify the Bank **in writing** within 10 days after you receive its explanation that you still refuse to pay the disputed amount, the Bank may report you to credit bureaus and other creditors and may pursue regular collection procedures. But the Bank must also report that you think you do not owe the money, and the Bank must let you know to whom such reports were made. Once the matter has been settled between you and the Bank, the Bank must notify those to whom the Bank reported you as delinquent of the subsequent resolution.

6. If the Bank does not follow these rules, the Bank is not allowed to collect the first $50 of the disputed amount and finance charges, even if the bill turns out to be correct.

7. If you have a problem with property or services purchased with a credit card, you may have the right not to pay the remaining amount due on them, if you first try in good faith to return them or give the merchant a chance to correct the problem. There are two limitations on this right:

a. You must have bought them in your home state, or if not within your home state, within 100 miles of your current mailing address; and

b. The purchase price must have been more than $50.

However, these limitations do not apply if the merchant is owned or operated by the Bank, or if the Bank mailed you the advertisement for the property or services.

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coverage and responsibility to the minimum consistent with the maintenance of a favorable image.

Warranties often have been successfully used as promotional tools. There are many examples of this, particularly in the new and used car business. Volkswagon, for example, several years ago based an entire promotion campaign on its 'Owner's Security Blanket,' which was a relatively inclusive warranty policy.
Warranties are most effectively used as promotional tools in competitive markets in which there is high, consumer-perceived risk. The strategy in such situations is to assume a large part of the responsibility for product performance after sale, and thus reduce the customer's uncertainty, but at the same time avoid raising the cost of production and distribution above competitive levels.
(Journal of Small Business Management, 1977, pp. 20-21.)

If you are going to open a manufacturing firm you will be especially interested in the Magnusen-Moss "Truth-in-Warranties" Act (1975). These rules are designed to "improve the adequacy of information available to the consumer, prevent deception, and improve competition in the marketing of consumer products." The Magnusen-Moss Warranty - Federal Trade Commission Improvement Act does not require that manufacturers offer warranties, but instead sets standards for those who do.

The most important provision of the basic law, from the businessperson's point of view, is the distinction between 'full' and 'limited' warranty. This difference pertains to all consumer products costing ten dollars or more at retail level and having a written warranty. The specifications for the 'limited' warranty are the standard requirements for any warranty coverage, and relate chiefly to an explanation of responsibility, plus the provision

of other standard data, such as a clear identification of the names and addresses of the warrantors. There is no requirement that the warrantor perform any specific service, only that he/she clearly state what service he/she intends to perform. The only unusual provision of the limited warranty is that the warrantor may provide an information dispute-settlement procedure, which the purchaser is encouraged to use before resorting to legal remedies.

How does this affect the small businessperson? The short-term effects of the law may work to his/her advantage in several ways. The small business-owner often has fewer financial resources than his/her larger competitor, and is therefore sometimes not as able to accept risk. Since the use of the 'full' warranty designation appears to involve considerable risk, the small businessperson may be unable to gamble by offering such a warranty when his/her larger competitor, with more resources, would be in a stronger position to accept the risk. The other consideration has to do with risk, but in a different way. In certain categories of shopping goods, buyers may tend to view products offered by small business as inherently more risky than products offered by larger businesses. One way this perceived risk can be overcome is by strong warranty and guaranteed policies. In the short run, the new law may inhibit the offering of strong warranties and guarantees, and thus deprive the small businessperson of some of the advantages of this marketing tool.

It is essential that small businesses understand the impact of the warranty legislation and the FTC rules. These require compliance with a number of instructions, and the small business whose owner/manager fails to understand them or take action might be being faced with legal action both by the government and by consumers. (Adapted from Journal of Small Business Management, 1977, pp. 23 and 26.)

WHAT IS THE FEDERAL FOOD AND DRUG ADMINISTRATION?

Federal Food and Drug Administration

The Federal Food and Drug Administration (FDA) is an important government agency. The FDA consists of five bureaus: Bureau of Foods, Bureau of Drugs, Bureau of Veterinary Medicine, Bureau of Radiological Health, and Bureau of Biologics, plus an Office of Medical Devices.

The FDA is responsible for regulating all foods, except for red meats, poultry, and eggs, which are the primary responsibility of the Department of Agriculture. All coloring ingredients in cosmetics must be proved safe by the manufacturers and certified by FDA. In addition, the FDA is required to approve the safety and effectiveness of medicines sold in the United States, whether intended for use in animals or by humans.

HUMAN RESOURCE CONSIDERATIONS

WHAT HUMAN RESOURCE PROGRAMS SHOULD BE DEVELOPED?

If you plan to hire employees, federal and state regulations will affect any human resource programs you develop. This legislation is designed to provide safety, equality and fair wages for human resources.

Federal Legislation

WHAT IS THE OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION?

Occupational Safety and Health Administration (OSHA)

The Williams Steiger Occupational Safety and Health Act of 1970, which took effect on April 28, 1971, has already had major impact on American businesses.

The Occupational Safety and Health Act of 1970 is intended to assure, so far as possible, safe and healthful working conditions to 57 million American employees. It does so by requiring employers to comply with safety and health standards covering conditions and operations in the workplace, and to maintain the workplace free from recognized hazards when no standard is applicable to the situation. The Act governs working conditions for the majority of employees in the United States, excluding only some state and municipal employees and those working in industries for which federal agencies other than the Occupational Safety and Health Administration prescribe health and safety conditions for employees.

The Act is applicable in the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, Guam, the Trust Territory of the Pacific Islands, Wake Island, Outer Continental Shelf Lands, Johnston Island, and the Canal Zone. The Secretary of Interior has issued regulations vesting jurisdiction for enforcement of the Act in the High Courts of American Samoa and the Trust Territory of the Pacific Islands.

If your business is in one of the following states, it is subject to state job safety and health laws and not the federal. Alaska, Arizona, California, Hawaii, Indiana, Iowa, Kentucky, Maryland, Michigan, Minnesota Nevada, New Mexico, North Carolina, Oregon, Puerto Rico, South Carolina, Tennessee, Utah, Vermont, Virginia, Virgin Islands, Washington, and Wyoming. Employers in states without approved plans are subject only to the federal job safety and health laws, except for conditions which the state regulates and OSHA does not. Elevator and boiler inspections, for example, are usually provided for by state law and the issues are not covered by OSHA.

The Act provides for voluntary participation by the states in the job safety and health field. Any state may submit a plan to OSHA for approval which details a program for assuming and maintaining jurisdication over the safety and health of workplaces within the state. Certain key provisions must be incorporated into these "state plans," such as a requirement for adoption of health and safety standards, while other features are optional. But the plan and its operation must be "as effective as" the federal OSHA program in order to secure and maintain operating approval.

In practice, most states have taken the easiest way to meet the "as effective as" test imposed by the Act: they have adopted laws and standards identical to the federal office. The summaries of each state job safety and health plan in the State Plan Division (of the regional OSHA office) note the differneces, if any, from the federal pattern, and provide other information peculiar to each state. Furthermore, employers in approved-plan states are nonetheless subject to federal OSHA jurisdiction in some areas.

Enforcement of the Act. Enforcement of the employer's obligations is accomplished through workplace inspections by OSHA compliance officers. Inspections are normally conducted during regular working hours without advance notice. If the employer objects to the inspection, the compliance officer must obtain an inspection warrant, which compels the employer to permit entry. OSHA may obtain the warrant without the employer's knowledge, so a compliance officer arriving at a worksite may already possess the warrant. Where violations of the Act, standards or regulations are found, citations are issued and penalties proposed.
(CCH OSHA Compliance Guide, 1977, pp 1009-1013.)

Standards. In carrying out its duties under the Act, OSHA is responsible for promulgating legally enforceable standards. OSHA standards may require conditions, or the adoption or use of one or more practices, means, methods or processes reasonably necessary or appropriate to protect workers on the job. It is the employers' responsibility to become familiar with the standards applicable to their establishments and to assure that employees have and use personal protective gear and equipment required for safety. Even in cases where OSHA has not promulgated specific standards, employers are responsible for following the intent of the Act's general duty clause.

OSHA standards fall into three major categories-- General Industry, Maritime, and Construction. Free single copies of each category may be obtained from the OSHA office nearest you. The Federal Register is one of the best sources of information on standards, since all OSHA standards are published in the Federal Register when they are adopted, as are all other amendments, corrections, insertions, or deletions.

The Federal Register is available in many public libraries. Annual subscriptions are available from the Superintendent of Documents, U. S. Government Printing Office, Washington, D.C. 20402.
(All About OSHA, April 1976, pp. 3-9.)

Small Business. Employers with no more than ten employees are exempted from most OSHA recordkeeping requirements. Congress in the Fiscal 1980 Appropriations Act exempted from inspection employers with ten or fewer employees in industries with three-digit Standard Industrial Classification injury/illness rates of less than seven per 100 employees. However, the exemption does not apply to any employer within the category which is engaged in activity involving very substantial occupational hazards. It is inapplicable to situations involving employee complaints, imminent danger, health hazards, accidents resulting in a fatality or hospitalization, or discrimination complaints. It does not apply to requested consultation, technical assistance, educational and training services, or surveys and studies.

Getting an SBA Loan. Loans for small businesses which would suffer substantial economic injury in complying with OSHA standards are available from the Small Business Administration. The Act provides for Small Business Administration loans to help employers come into compliance with the standards of federal OSHA and approved plan states. From the Act's inception in 1971 through March 1977, the SBA made 164 separate OSHA compliance loans totalling over $43 million. These loans ranged from individual amounts of $4,500 to $2.4 million.

In 1975, OSHA published a booklet (SBA Loans for OSHA Compliance, OSHA Programs and Policy Series 2005) providing basic information to the small business employer on how to apply for an SBA OSHA compliance loan.
(CCH OSHA Compliance Guide, 1977, p. 1013.)

Affirmative Action

WHAT ABOUT AFFIRMATIVE ACTION?

Over the years, legislation dealing with affirmative action has come a long way.

> *The early legislation with respect to equal opportunity and employment discrimination was passed in the 1940's and 1950's. However, it was not until the early 1960's that the significant laws were enacted. The first major piece of legislation was the Equal Pay Act of 1963 which required all employers subject to the Fair Labor Standards Act to provide equal pay for men and women performing similar work. In 1964 the Civil Rights Act was passed, and one of its major provisions was Title VII. This prohibits discrimination because of race, color, religion, sex, or national origin in all employment practices, including hiring, firing, promotion, compensation and other terms, privileges and conditions of employment. The next major statute was the Age Discrimination in Employment Act of 1967, which prohibits employers of 25 or more persons from discriminating against persons 40 to 65 in any area of employment because of age.*
>
> *In 1972, the Equal Employment Opportunity Act, which amended the Civil Rights Act of 1964, was passed. This act greatly strengthened the powers and expanded the jurisdiction of the Equal Employment Opportunity Commission (EECC) in enforcement of this law. As amended, Title VII now covers (1) all private employers of 15 or more persons, (2) all public and private educational institutions, (3) state and local governments, (4) public and private employment agencies, (5) labor unions with 15 or more members, and (6) joint labor-management committees for apprenticeship and training.* (Journal of Small Business Management, 1977, p. 1.)

Below, in outline form, are a set of basic steps you, the small business owner, can follow to develop an affirmative action program:

1. Issue a written equal employment policy and an affirmative action commitment.

2. Assign responsibility and authority to someone in the firm to direct and implement your program.
3. Publicize your policy and affirmative action commitment.
    A. Internally: to managers, supervisors, all employees, and unions.
    B. Externally: to sources and potential sources of recruitment, potential minority and female applicants, to those with whom you do business, and to the community at large.
4. If you have an existing business, survey present minority and female employment by department and job classification. Determine extent of minority/female employment.
5. Develop goals and timetables to improve utilization of minorities, males, and females in each area where underutilization has been identified.
6. Develop and implement specific programs to achieve goals. This is the heart of your program. Review your entire employment system to identify barriers to equal employment opportunity, and make needed changes to increase employment and advancement opportunities.
7. Establish a system to monitor and evaluate the program's progress. (Adapted from the Journal of Small Business Management, 1977, pp. 3-4.)

Minimum Wage Laws

WHAT ABOUT MINIMUM WAGE LAWS?

New minimum wage increases approved by Congress and signed into law by President Carter are estimated to cost businesses $23.5 billion.

Many small businesses are against this law. Some believe the wage increase leaves them with few choices. They must pass on the increase to the consumers, get rid of employees, or absorb the loss themselves. Most small businesses will probably use a combination of all three methods to cope with the requirements.

Provisions of the new minimum wage law are to:

- Raise the minimum wage from $2.30 to $2.65 on January 1, 1978. The minimum wage is to increase to $2.90 on January 1, 1979, $3.10 on January 1, 1980. and $3.35 on January 1, 1981.

- Obligate employers to pay higher base salaries to workers who earn tips by reducing the size of "tip credit" (the practice of permitting employers to offset tip earnings against a portion of the minimum wage). The reduction goes from 50% to 45% in 1979, and to 40% in 1980.

- Increase the small business exemption limits which apply to most retail and service businesses from $250,000 in annual sales to $275,000 on July 1, 1978, to $325,000 on July 1, 1980, and to $362,600 on December 31, 1981.

- Permit employers to hire up to six students for part-time jobs at 85% of the minimum wage.
(Adapted from National Federation of Independent Business Mandate, December 1977, p. 1.)

State Programs

WHAT ABOUT STATE PROGRAMS?

Human resource legislation varies from state to state. State employee relations or human resource departments are responsible for enforcing labor and industrial safety laws. These agencies are also responsible for enforcing state minimum wage requirements. Look to your local telephone directory for help in locating the state agency that can provide services and information you need.

TAXES

WHAT ABOUT TAXES?

For many small businesses, "taxes" is a scare word. Some small entrepreneurs are frightened by the paperwork and the records they are required to keep. You will not be ready to start your business, however, until you have become generally familiar with the kinds of taxes you must pay and tax laws and regulations concerning your particular business.

Your business will be subject to federal, state, and local taxes. Among the federal taxes for which you may be

liable are social security taxes (shared by you, as employer, and your employees), excise taxes, and federal income tax.

From your employees' wages you must deduct their share of the old-age, survivor's, hospital, and medical insurance taxes. Also, you must withhold an amount from their wages for payments of their individual federal income tax and, where required, state and local income taxes.

Most states and some local governments require that businesses pay taxes on corporate income, property and wages. Be sure to know what your obligations are and follow procedures for fulfilling them.

Fulfilling Tax Obligations

WHAT ARE THE ROLES OF AN ENTREPRENEUR IN PAYING TAXES?

As the owner/manager of a small business, you play two roles in managing taxes. In one role, you are a debtor. In the other role, you are an agent. In the role of debtor, you are liable for various taxes and pay them as part of your business obligations. In the role of agent, you collect various taxes and pass the funds on to the appropriate governmental agency.

WHAT INFORMATION IS REQUIRED?

Information Required

Before hiring any employees, you should go to the local office of the Director of Internal Revenue Service (IRS) for information about your federal tax obligations. An excellent

booklet to obtain from the IRS office is Tax Guides for Small Business. Also, contact the appropriate government agencies for additional information.

One of the first items you must obtain as an employer is an Employer Identification Number. This number is required on all employment and business tax returns. By filing an application with the Internal Revenue Service, you can obtain your number. Be sure to request from the IRS office a set of tax information materials entitled, "Mr. Businessman's Kit." This kit includes tax information that will be very useful to you in operating your business.

A copy of the SBA Small Marketer's Aid No. 144, Getting the Facts for Income Tax Reporting, will also be useful to you as you review your tax responsibilities.

Withholding Taxes

WHAT ABOUT WITHHOLDING TAXES?

Income Taxes. As an employer, you are responsible for withholding federal income tax from each employee's wages. You are then responsible for sending these withholdings to the government periodically.

Whenever you hire an employee, you must be sure he/she prepares a form W-4 "Employees Withholding Allowance Certificate." On this form, the employee informs you of the number of exemptions to be claimed. This form gives you, the employer, the opportunity to withhold income tax in accordance with the withholding tables distributed by the Internal Revenue Service. The manual, Employer's Tax Guide, prepared by

the IRS, includes tables that tell you how much you must deduct (withhold) from the employee's salary.

Be sure each employee's W-4 is up-to-date, and the exemptions he or she wants to claim are correct. It is normally good practice at the beginning of each year to ask your employees to prepare a new W-4.

Social Security Taxes. Employers must also withhold Social Security taxes. You, the employer, must match the employees' contribution by paying an amount equal to that withheld from their salaries.

If you decide to use Social Security for your own retirement, you will need to pay the tax yourself.

Remitting Taxes

HOW ARE TAXES REMITTED?

How do entrepreneurs remit the income and Social Security taxes withheld? Remitting the funds involves two steps:

- Reporting the income and Social Security taxes that you withheld
- Depositing the withheld funds.

Tax return form 941 is used to report the withholdings. This form is prepared for each calendar quarter and is due on the close of the quarter - April 30, July 31, October 31, and January 31.

To deposit the withheld funds, prepare form 501 (Federal Tax Deposits, Withheld Income and FICA Taxes). This form and a check for the amount due should be sent to the Federal

Reserve Bank which services your area or to a Commercial Bank that is authorized to accept tax deposits.

In some cases, taxes must be remitted before the form is filed. The dates on which the taxes are due depend on the situation. The summary below gives the rules outlined in Circular E, Employer's Tax Guide, issued in 1977.

SUMMARY OF DEPOSIT RULES FOR WITHHELD INCOME TAX AND SOCIAL SECURITY TAXES

	DEPOSIT RULE	DEPOSIT DUE
1.	If at the end of a quarter the total undeposited taxes are less than $200:	No deposit required. Pay balance directly to the Internal Revenue Service with your quarterly return, or make a deposit if you prefer.
2.	If at the end of a quarter the total undeposited taxes are $200 or more:	On or before last day of next month. If $2,000 or more, see rule 4.
3.	If at the end of any month (except the 1st month of a quarter), cumulative undeposited taxes for the quarter are $200 or more, but less than $2,000:	Within 15 days after end of month. (For the first 2 months of the quarter no deposit is required if you previously made a deposit for a quarter-monthly period that occurred during the month under the $2,000 rule in item 4, below).
4.	If at the end of any quarter-monthly period, cumulative undeposited taxes for the quarter are $2,000 or more:	Within 3 banking days after the quarter-monthly period ends.

(Circular E, Employer's Tax Guide, Internal Revenue Service Publication 15.)

Unemployment Taxes

ARE BUSINESS OWNERS OBLIGATED FOR UNEMPLOYMENT TAXES?

If your business paid $1,500 or more in any calendar quarter to employees, or you had one or more employees work some part of a day in each of twenty or more calendar weeks, you are liable for federal unemployment tax. Employees do not contribute to this tax. The employer pays the full amount of federal unemployment taxes due.

The basic rate is 3.2% of the first $4,000 of taxable wages received by each employee, although most employers pay less. However, the federal government gives you credit for any unemployment taxes which you pay to your state government.

GETTING LEGAL ADVICE

HOW CAN YOU OBTAIN LEGAL ADVICE?

From time to time, every entrepreneur needs legal advice. Today's businesses exist in a complex society. In this era of massive technological advancements and numerous government rules and regulations, advice from an attorney is often needed by the small business owner. Selection of the lawyer or the law firm should be based on the capability and potential usefulness to you and your firm.

The following business activities may require the advice and counsel of an attorney:

1. If a business is incorporated, the entrepreneur may need advice about directors' and stockholders' meetings, dividends, rights of stockholders, etc.
2. Relationships with employees may require legal services in labor negotiations, proceedings before the National Labor Relations Board and other boards of arbitration, and all other matters involving industrial relations.
3. The entrepreneur may need advice about antitrust violations by suppliers or about Robinson-Patman Act questions in sales to customers.
4. The company may encounter difficulties in its relations with the public--such as collection claims and claims for personal injury, property damage, and product liability. Somewhat less frequent are claims for libel, slander, defamation, false arrest, and malicious prosecution.
5. The legalities of taxation -- federal, state, and local -- often need interpretation to owners of business concerns.
6. There are other highly specialized fields of legal advice such as patent, copyright and trademark, Security and Exchange Commission financing, and practice before governmental agencies such as the Interstate Commerce Commission.

(Adapted from Selecting a Lawyer for Your Business, 1962, pp. 66-73)

PREPARATION/ADAPTATION ACTIVITIES

Are you able to apply these government rules and regulations to your business aspirations? Are you now more knowledgeable about the various rules and regulations and taxes with which your business will need to comply? The following activities should help you check your knowledge about government regulations and small business.

ASSESSMENT ONE

1. Itemize your federal, state, and local tax responsibilities. Make a chart showing when payments are due, what amount each will be, and to whom payments are made.
2. Assume your business is in operation, and you have two employees. This is the first quarter your firm has been in existence. Assume one employee earned $542.50 gross for the quarter and the other earned $692.00 for the same period. Obtain a copy of Circular E, Employer's Tax Guide from your IRS office and compute the federal income and Social Security taxes. Also complete form 941.

3. Complete a report which documents procedures for your firm to comply with the various federal and state laws affecting employer-employee relations under the Occupational Safety and Health Act of 1970, and under the various employment practices as established by the Federal Civil Rights Act of 1964. You may want to use the following report format to complete the assignment:

Federal Legislation	Primary Requirements	Policy Statements Complying With Primary Requirements
I. OSHA		
II. Employment Practices		
A.		
B.		
C.		

4. Based on your personal experience, write a three page paper explaining this statement: "Although rules and regulations are often perceived as burdensome by the small business owner, they really are of primary advantage to the same owner." Your response should identify exact acts and examples.

5. Locate a small business person who operates a business similar to the one you would like to operate. Ask the following questions concerning the future of government rules and regulations and small business:

   (a) Will there be more or less regulation?

   (b) Will different regulations exist?

   (c) Will self-monitoring of business practices by trade associations become more or less acceptable?

   (d) Will future paperwork and tight government controls cause many business owners to give up and go out of business?

   (e) How will government regulations help small businesses in the future?

POSTASSESSMENT

1. List and briefly explain each state law you expect to be required to follow in your business.
2. In outline form, identify the steps and procedures you must follow as a business owner in withholding and transmitting federal income taxes.
3. Name four federal agencies and briefly describe their functions.
4. Describe in detail the Magnusen-Moss "Truth-in-Warranties Act" (1975). Distinguish between implied and expressed warranties.
5. Describe in detail a Human Resource Program for your firm making sure you include all the required rules and regulations.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well
( ) Fairly well
( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.

ANNOTATED LIST OF RULES AND REGULATIONS

There are many government rules and regulations that may apply to your business. Below is an annotated list and overview of some that might be important to you. Go through the list and identify those with which you are familiar. Use the checklist that follows to check those on which you will need more information. Additional information may be obtained from a government agency, attorney, accountant, or a trade association.

PERSONNEL RULES AND REGULATIONS

Fair Labor Standards Act. The Act contains regulations about minimum wage, maximum hours, overtime pay, record keeping, and child labor. For more information contact your state Department of Labor, Office of Wage and Hour, and the Wage and Hour Public Contracts Division, U.S. Department of Labor.

Worker's Compensation. An employer is required to (1) provide a safe place to work, (2) hire competent employees, (3) provide safe tools, and (4) warn employees of an existing danger. The employer who does not do this is liable for damage suits. State law determines the level or type of benefits payable to an injured worker. Rates for compensation vary

according to the hazardous rating of the occupation. For more information contact your state Bureau of Worker's Compensation.

Equal Employment Opportunity Act. The Act prohibits discrimination because of race, color, religion, age, handicap, sex, or national origin in all employment practices. The Act covers specific types and sizes of businesses. For example, all private employers of fifteen or more persons are covered by the Act. For more information contact your federal, state, or regional Equal Employment Opportunity Commission.

Unemployment Compensation. State regulations define what types of firms or organizations are covered and are required to pay contributions for unemployment compensation. Coverage depends on the amount and type of employment as defined by law. For more information contact your state Bureau of Employment Service.

Employee Retirement Income Security Act. This Act deals with three different types of pension or profit-sharing plans; welfare, pension, and profit-sharing. For more information contact the Internal Revenue Service.

The Federal Social Security Act. This Act requires a separate payroll calculation to finance hospital and medical care for people 65 years and older. This same law provides for income to be paid to an employee upon retirement at the legal retirement age. For more information contact the Social Security Administration.

ANTITRUST RULES AND REGULATIONS

The Sherman Antitrust Act. This Act prohibits "contracts, combinations and conspiracies in restraint of trade" and prohibits "monopolization or attempt to monopolize" in any product line or geographical area of commerce.

The Clayton Act. This Act prohibits mergers and acquisitions which may lead to substantially less competition. "Exclusive dealing" arrangements are also covered if they contribute to lessened competition.

The Robinson-Patman Act. This Act attempts to prevent discrimination as to price or service to the trade. For instance, sellers are restricted from discriminating in price between buyers.

Resale Price Maintenance Laws (also called "Fair Trade Laws"). Most of these laws are no longer in existence.

FEDERAL FOOD AND DRUG RULES AND REGULATIONS

The Federal Trade Commission Act. This Act permits states to pass laws allowing producers and distributors to fix the price of branded or labeled merchandise. It generally prohibits unfair methods of competition. For more information contact the Food and Drug Administration, 5600 Fishers Lane, Rockville, Maryland 20852.

Federal Food, Drug, and Cosmetic Act. Acts to regulate foods, drugs, cosmetics and medical devices.

Fair Packaging & Labeling Act. Enforces packaging and labeling as it applies to foods, drugs, and cosmetics, and medical devices.

CREDIT RULES AND REGULATIONS

Consumer Credit Protection Act. (Contains Truth-in-Lending.) This Act regulates consumer credit transactions. In addition to Truth-in-Lending, the Act also applies to credit advertising, wage garnishments, and extortionate credit transactions. For more information on the latter three, contact the Board of Governors of the Federal Reserve Systems, Washington, D.C. 20551. The Federal Trade Commission (FTC) has been given responsibility for enforcing Truth-in-Lending. For more information

on Truth-in-Lending contact the FTC, Washington, D.C. 20580 or contact the Board of Governors.

Equal Credit Opportunity Act. This Act prohibits credit discrimination on the basis of race, color, religion, national origin, sex, marital status, handicap, or age, providing a person is able to enter into a binding contract. This also provides that credit information can be included in the name of both the husband and the wife. Contact your nearest federal or state Equal Employment Opportunity Commission for information.

SAFETY RULES AND REGULATIONS

Occupational Safety and Health Act. This Act deals with very specific safety regulations that employers must observe. If you have eight or more employees, you will need to fill out certain forms. Occupational Health and Safety Administration (OSHA) officials may also come to inspect your business place. For more information contact your nearest OSHA office.

Child Protection & Toy Safety Act.

Consumer Products Safety Act.

WARRANTY AND TRADEMARK RULES AND REGULATIONS

Lanham Trademark Act. This Act prohibts the use of the same trademarks by two or more companies in the nation. The trademark or name must be registered with the government.

Magnusen-Moss Warranty - Federal Trade Commission Improvement Act. In conjunction with the Federal Trade Commission, this Act does not require that manufacturers offer warranties, but sets standards for manufacturers who do offer full warranties and limited warranties.

ENVIRONMENTAL RULES AND REGULATIONS

The small business owner will need to be aware of regulations affecting solid waste disposal, air, and water pollution regulations. For more information contact the appropriate office of your state Environmental Protection Agency.

TAXES

Income Taxes. Income taxes are paid on an employee's and employer's gross income. The amount of federal income tax an entrepreneur pays depends on the income of the firm. The type of business structure--sole proprietorship, partnership, or corporation, as well as any other income, exemptions, and personal deductions

(nonbusiness deductions) all determine the amount of federal income tax a business owner pays.

Withholding Income Taxes. Employees make federal income tax payments each payday through the employer. The employer "withholds" these taxes and passes these payments on to the government at state intervals of time. If employees are hired, the employer has the employee sign a form W-4 "Employees Withholding Allowance Certificate." On the form the employee lists the exemptions and additional withholding allowances claimed. This completed form gives the employer the authority to withhold income tax according to the withholding tables issued by the Internal Revenue Service (IRS). At the end of the year, the employer provides each person employed by him or her during the previous year with a W-2 form listing total wages and taxes deducted for the entire year.

Social Security Taxes. Taxes paid by the employee and matched by the employer for receipt of Social Security benefits by employee. Business owners wishing to have Social Security retirement must pay the tax for themselves.

Unemployment Taxes. Firms are liable for federal unemployment taxes if the owner paid wages of $1,500 or more in any calendar quarter or had one or more employees working at least some portion of one day during twenty or more calendar weeks. The twenty weeks do not have to be consecutive. Federal unemployment tax is paid by the employer, and not deducted from the employee's wages. Federal unemployment tax must be paid on or before each January 31 for the preceding year.

State and Local Taxes. State taxes vary from state to state. The three major types of state taxes are unemployment taxes, income taxes, and sales taxes. Many local governments also have income and sales taxes. It is essential to know what taxes--and how much--an entrepreneur is required to pay by both state and local governments.

CHECKLIST

PERSONNEL RULES AND REGULATIONS

_____ Fair Labor Standards Act

_____ Worker's Compensation

_____ Equal Employment Opportunity Act

_____ Unemployment Compensation

_____ Employee Retirement Income Security Act

_____ Federal Social Security Act

ANTITRUST RULES AND REGULATIONS

_____ Sherman Antitrust Act

_____ Clayton Act

_____ Robinson-Patman Act

_____ Resale Price Maintenance Laws

FEDERAL FOOD AND DRUG RULES AND REGULATIONS

_____ Federal Trade Commission Act

_____ Federal Food, Drug, and Cosmetic Act

_____ Fair Packaging and Labeling Act

CREDIT RULES AND REGULATIONS

_____ Consumer Credit Protection Act

_____ Equal Credit Opportunity Act

SAFETY RULES AND REGULATIONS

_____ Occupational Safety and Health Act

_____ Child Protection and Toy Safety Act

_____ Consumer Products Safety Act

WARRANTY AND TRADEMARK RULES AND REGULATIONS

_____ Lanham Trademark Act

_____ Magnusen-Moss Warranty - Federal Trade Commission Improvement Act

ENVIRONMENTAL RULES AND REGULATIONS

_____ Federal Standards

_____ State Standards

TAXES

_____ Income Taxes

_____ Withholding Income Taxes

_____ Social Security Taxes

_____ Unemployment Taxes

_____ State Taxes

_____ Local Taxes

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RESEARCH AND DEVELOPMENT SERIES NO. 194 B-4

PACE

A Program for Acquiring Competence in Entrepreneurship

Instructor's Guide

Part II

Becoming An Entrepreneur

Unit D

Government Regulations And Small Business

THE NATIONAL CENTER FOR RESEARCH IN VOCATIONAL EDUCATION
THE OHIO STATE UNIVERSITY
1960 KENNY ROAD • COLUMBUS, OHIO 43210

USING THE INSTRUCTOR'S GUIDE

The Instructor's Guide contains the following:

- Teaching/Learning Objectives (identical to the Teaching/Learning Objectives found in the PACE unit)
- Teaching/Learning Delivery Suggestions
- Pre/postassessment Suggested Responses

This information is geared towards the three levels of learning, and is designed for use as a supplemental teaching aid. Additional instructions for using PACE, sources of information, and an annotated glossary can be found in the PACE Resource Guide.

PRE/POSTASSESSMENT
SUGGESTED RESPONSES

EXPOSURE

1. Responses should note purpose, persons benefiting from, and effectiveness of regulations.

2. A business license or permit is an authorization or a formal permission to operate a business. Pharmacies, real estate brokerages, barbers, beauty salons, building contractors, and CPA accounting firms are often licensed.

3.

Federal Legislation Classification	*Law*
Employee Protection	Occupational Safety and Health Act Fair Labor Standards Act Equal Employment Opportunity Act Federal Social Security Act National Labor Relations Act
Competition Protection	The Sherman Antitrust Act The Clayton Act Robinson-Patman Act The Lanham Trademark Act
Consumer Protection	The Equal Credit Opportunity Act The Fair Credit Billing Act The Consumer Credit Protection Act The Credit Reporting Act Federal Food and Drug and Cosmetic Act Fair Packaging and Labeling Act Textile Fiber Products Identification Act

4. Most entrepreneurs are required to pay Social Security taxes and corporate or individual income tax.

5. State and local taxes may include: gross receipts and sales taxes, business real estate and personal property taxes, capital stock taxes, business automobile and truck licenses, inspection taxes.

EXPLORATION

1. Five areas in which legal problems may develop include (a) contracts and agreements, (b) zoning, (c) verbal agreements, (d) insurance contracts, and (e) mergers. Many more areas are listed in the unit.

2. The Federal Communications Commission (FCC) licenses radio and television station operators. The Civil Aeronautics Board (CAB) licenses airlines and private aircraft pilots.

3. The *Sherman Act* was created to prevent businesses from restraining trade and monopolozing markets. The *Clayton Act* prohibits price discrimination, exclusive agreements, and acquisition of the stock of another company when the effect would tend to lessen competition or create a monopoly. The *Robinson-Patman Act* prohibits price discrimination among different purchasers of commodities of like grade and quality if the effect of such discrimination may substantially lessen competition or tend to create a monopoly.

4. Retailers who sell consumer products priced above $15 and who offer warranties must comply with the Magnusen-Moss Warranty Act. These retailers must (a) tell what the warranty covers, (b) tell what the warranty does *not* cover, (c) tell what the warrantor will do should the product fail, and (d) provide step-by-step instructions to the purchaser to get the warranty honored.

5. The business owner assumes the roles of tax debtor and tax agent.

PREPARATION/ADAPTATION

1. Responses should reflect an understanding of the different types of government rules and regulations and their effect on the small business venture.

2. Outline should note steps that should be followed when the small business owner assumes tax agent role.

3. (a) The Federal Trade Commission (FTC) is an administrative body of experts that determines and prohibits unfair methods of competition, (b) The Food and Drug Administration (FDA) is responsible for regulating all foods, except red meats, poultry, and eggs. All coloring ingredients in cosmetics must be proven safe by the manufacturers and certified by the FDA. In addition, the FDA must approve the effectiveness of medicines sold in the U.S., (c) The Occupational Safety and Health Administration (OSHA) administers the Occupational Safety and Health Act, (d) The Equal Employment Opportunity Commission (EEOC) enforces laws designed to promote equal employment opportunity.

4. The Magnusen-Moss "Truth-in-Warranties" Act (1975) is designed to "improve the adequacy of information available to the consumer, prevent deception, and improve competition in the marketing of consumer products." An *implied* warranty is based on common law and merely warrants that the product will perform the function it was designed to perform. *Expressed* warranties are normally written expressions of the post-purchase responsibilities of both the buyer and the seller.

5. The program should include provisions for and methods of documenting compliance with OSHA regulations and EEOC requirements.

LEVELS OF LEARNING	TEACHING/LEARNING OBJECTIVES Upon completion of this level of instruction you should be able to:	TEACHING/LEARNING DELIVERY SUGGESTIONS A variety of different teaching/learning methodologies have been used. To help you organize your work and plan the use of this level these suggestions are made:
Exposure	1. Discuss the importance of government rules and regulations to small business. 2. Define licenses and permits. 3. Classify legislation according to whom it is designed to protect. 4. Discuss at least three types of state and local taxes.	1. Arrange for a local attorney to explain to the group the various legal services available to the entrepreneur. 2. Organize a panel discussion with different types of small business owners on the impact of government rules and regulations. 3. Obtain copies of tax information distributed to business owners from an Internal Revenue Service (IRS) office. 4. Obtain samples of business permits and licenses.
Exploration	1. Identify and describe at least five potential areas in which legal problems may arise for small business owners. 2. Identiy two federal agencies which license businesses. 3. Identify and discuss in detail at least three federal rules and regulations which are classified in the area of protecting fair competition in our economy. 4. Define and discuss in detail each of these legislations: a. Magnusen-Moss Warranty Act (1975) b. Occupational Safety and Health Act (1970) c. Equal Employment Opportunity Act (1972) d. Equal Pay Act of 1963. 5. Explain the dual roles a business owner assumes in managing taxes at the federal, state, and local levels.	1. Have an IRS representative or a state tax agent meet with the group to discuss the tax responsibilities of entrepreneurs. 2. Have a local personnel officer with expertise in small business human resource development programs meet with the group to discuss recent employment rules and regulations. 3. Contact various personnel offices for copies of employee application forms and performance tests.
Preparation/Adaptation	1. Discuss the various regulations that will affect your business operation. 2. Identify and locate offices of appropriate government agencies to obtain the information needed to comply with the various rules and regulations. 3. Prepare a complete set of tax reports based on estimated data for your firm. 4. Develop policies for your business to comply with federal rules.	1. Have the group visit the local IRS office to obtain information on tax obligations for small businesses. This includes getting an Employer's Identification Number and filling out the proper data on the necessary forms. 2. Organize a panel of small business owners, their accountants, and their bookkeepers. The panel should explain how to set up records which comply with taxes and other government rules and regulations.

The PACE series consists of these parts and units.

PART I: GETTING READY TO BECOME AN ENTREPRENEUR

- Unit A: Nature of Small Business
- Unit B: Are You an Entrepreneur?
- Unit C: How to Succeed and How to Fail

PART II: BECOMING AN ENTREPRENEUR

- Unit A: Developing the Business Plan
- Unit B: Where to Locate the Business
- Unit C: Legal Issues and Small Business
- Unit D: Government Regulations and Small Business
- Unit E: Choosing the Type of Ownership
- Unit F: How to Finance the Business
- Unit G: Resources for Managerial Assistance

PART III: BEING AN ENTREPRENEUR

- Unit A: Managing the Business
- Unit B: Financial Management
- Unit C: Keeping the Business Records
- Unit D: Marketing Management
- Unit E: Successful Selling
- Unit F: Managing Human Resources
- Unit G: Community Relations
- Unit H: Business Protection

RESOURCE GUIDE